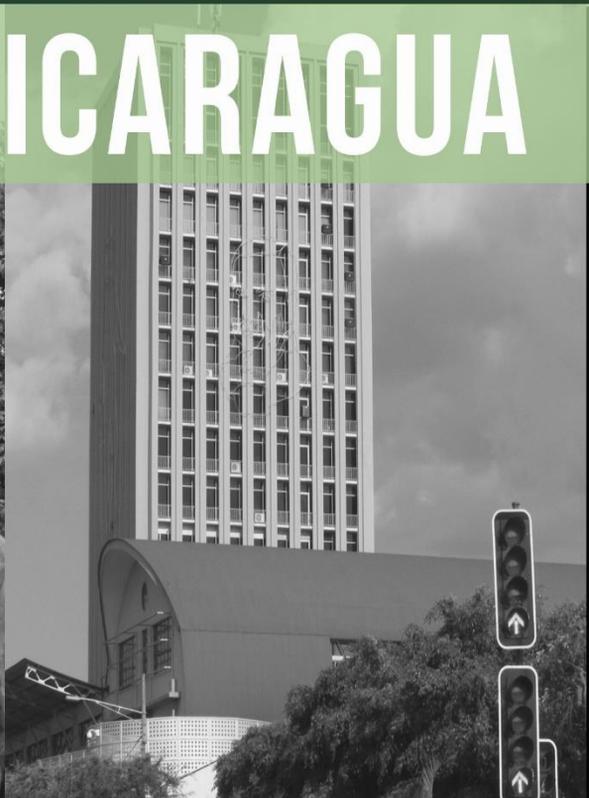


NICARAGUA





Nicaragua is the largest country in the Central American region, bordering Honduras to the north and Costa Rica to the south. The Pacific Ocean lies to the west and the Caribbean Sea to the east. With a total area of 130,373.4 km², Nicaragua has experienced sustained economic growth as a result of the disciplined management of its fiscal, financial monetary and exchange policies.

Although the official language of Nicaragua is Spanish, English is increasingly popular, mainly being used for business.

Excellent Economic Performance

- The legal framework for investment in Nicaragua possesses a unique harmony. This is complemented by groundbreaking special regulations, enacted over the last ten years. These regulate specific aspects of the country's business climate such as: contracts, loans, investment incentives and exports, stock market, banking, real estate, etc.
- The Foreign Investment Promotion Law offers investors fundamental guarantees such as full currency convertibility; freedom to expatriate all capital and profits, dividends or earnings generated in the national territory, after paying pertinent taxes; there is no need of a minimum or maximum amount of investment; prompt depreciation of capital goods; national loans are available through local banks, according to their terms and condition of approval; 100% international ownership, if allowed.



Excellent Economic Performance

- Pro-business legislations and administrative procedures have contributed to a strong inflow of foreign investment in recent years. Furthermore, Nicaragua's excellent economic performance has been recognized by the International Monetary Fund (IMF) through a series of revisions over the past years. In 2015, Nicaragua reached a gross domestic product (GDP) of USD 12,693 million and a real growth of 4.9%. In turn, GDP per capita is USD 2,026.90.



Generous Fiscal Incentives

- The Tax Law describes a series of benefits to different sectors:

Exporters

- 0% Value of Added Tax (IVA) rate to exports on domestically produced goods or services provided to clients abroad..
- Exports of goods are taxed at 0% of the Selective Consumption Tax.
- A tax credit can be applied to the advance payments or annual Income Tax with previous authorization of the tax administration in an amount equal to 1.5% of the FOB value of exports.

Agricultural Producers

- Article 127 presents a list of transfer that are exempt of transferring the Value Added Tax, some of them are related to the agricultural sector.
- Additionally, article 274 provide exemptions on Value of Added Tax and Selective Consumption Tax, to the transfers of raw materials, intermediate goods, capital machinery and equipment to agricultural producers and micro, small and medium industrial and fishing enterprises, through a tax list.



Forestry Sector

- Plantations registered on the regulatory entity will be exempted of paying fifty percent (50%) of the Municipal Income Tax.
- Areas where forestry plantations are established, and where forest management are performed through a Forest Management Plan, are exempted from Property Tax (IBI).
- Companies of any line of business that invest in forestry plantations may deduct, as an expense, 50% of the amount invested for Income Tax purposes.

Temporary Admissions Law

- Companies that export directly or indirectly are eligible for this regime at least 25% of total sales with an export value not less than USD 50,000.00 annually.



Industrial Free Zones for Export

- 100% exemption from Income Tax during the first 10 years of operation, and 60 percent from the 11th year onwards.
- Exemption from taxes on transfers of real estate.
- Tax exemption from the set-up, transformation, merger and reforming of entity, as well as on stamp duties.
- Exemption from all taxes, customs and consumption duties related to empower the company for its operations, as well as taxes applicable to benefits that tend to satisfy the needs of personnel of the company.
- Exemption from customs taxes on transport equipment, including vehicles used for cargo, passengers or service intended for normal use of the company.
- Full exemption from indirect, selective-sales or consumption taxes.
- Full exemption from municipal taxes.
- Full exemption from export taxes to products processed within the zone.
- Exemption of taxes on local purchases.

Electricity Generation from Renewable Sources

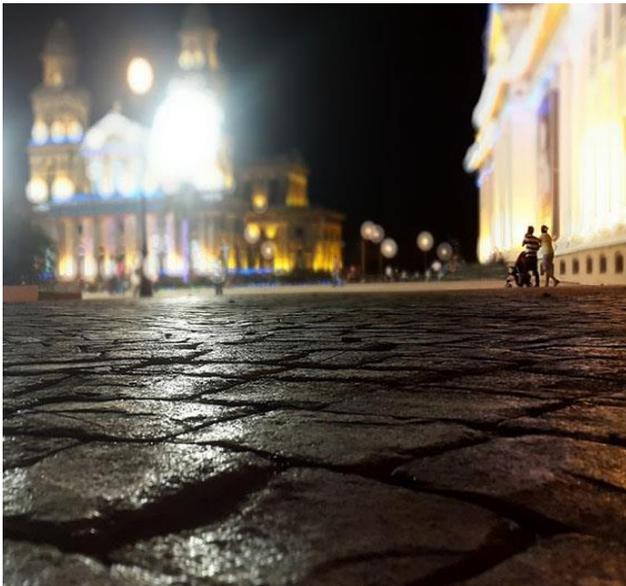
- Exemption from payment of import duties of machinery, equipment, materials and supplies used exclusively for pre-investment work and of building works.
- Exemption from payment of VAT on machinery, equipment, materials and supplies used exclusively for the work of pre-investment and construction works.
- Exemption from all existing municipal taxes on property, sales, fees for the construction of the project for a period of 10 years (5 years in case of geothermal energy).
- Exemption from all taxes for the exploitation of natural resources for a maximum period of 5 years after the start of operating.
- Exemption from Stamp Tax that may cause the construction, operation or expansion of a project for a period of 10 years with the same tax exemptions.





Exploration and Exploitation of Mines

- The holders of mining concessions are required to pay for surface rights and pay for the right of extraction. The exemptions to this sector are:
 - ✓ Temporary admission regime which allows the entry of goods into national customs territory and the local purchase of goods into national customs territory and the local purchase of goods or raw materials without paying any tax or fee.
 - ✓ If it is not possible to apply the previous suspension of duties and taxes, the benefit will apply under subsequent refund procedure of the taxes paid.
 - ✓ Zero percent tax rate for exports applicable to all exports.



Tourism Industry

- Exemption of 80 to 100 percent of the income tax (IR) for a period of ten years.
- Exemption of property tax (IBI) for a period of ten years.
- Exemption of Value Added Tax (VAT) applicable to design services, engineering and construction services.
- Exemption of Import Tax and Value Added Tax on the local purchase of goods, furniture, equipment and vehicles, and on the purchase of equipment that contributes to save water and energy, and those necessary for the safety of the project. Also, exemption on the purchase of non-luxury materials and fixtures of the building.



Ports

- The approved investment projects, during the period of construction, improvement, expansion or development of port infrastructure, will be considered exempt from duties and taxes on imports, local purchases and municipal taxes.



Fishing and Aquiculture

- In addition to the benefits granted by the Tax Law, the Law of Fishing and Aquiculture grants the right of previous suspension of taxes levied on diesel used for fishing activities.



Hydrocarbons

- An exemption of Import Duties and Temporary Protection Tariff which are regulated in accordance with the Agreement on the Customs and Tariff Regime of Central America.
- There is a Unique Specific Tax on Fuels (IECC, for its acronym in Spanish) with the purpose of creating a single tax on crude oil or partially refined or reconstituted, and other derivatives. The IECC is applied just once on the transfer of import of petroleum derivatives; the Tax Law (822) forbids the existence of another tax on them, municipal, local and regional taxes.

Security Index

- Nicaragua is internationally recognized for its public safety. In the last years it has become in one of the safest countries in the western hemisphere. The Global Competitiveness Index (2015), developed by the World Economic Forum, measures the countries' ability to provide high levels of prosperity to its citizens. In this indicator, Nicaragua is ranked as the third country with the lowest crime and robbery levels in the American Continent.



Fiscal System

- Tax Law (Law 822) provides numerous tax benefits to certain productive sectors of the economy in order to promote their growth and development. Waivers and exemptions granted by this law are without detriment to those granted by the legal provisions listed in the article 287.



Income Tax

- A direct and personal tax is applied to income of Nicaraguan source obtained by tax payers, whether residents or not. That income tax is also applied to any increase in capital that is not justified and to income that is not explicitly or exonerated by law. Income is classified as follows:
 - ✓ Work income: Encompasses all kind of compensation, remuneration or revenue, whatever is its designation or nature, in cash or kind, arising from personal work provided by others. The taxable base for income tax of the work income is net income, which is the result of subtracting the allowable deductions from gross income.
 - ✓ Income from economic activities: are those earned or received in cash or kind by a taxpayer who provides goods and services, including capital income and earnings and loss of capital, as long as they are constituted or integrated as income from economic activities. Additionally, taxpayers are required to pay a definitive minimum payment, which is calculated by applying a one percent of aliquot on taxable gross income. During the first three years, taxpayers are exempt of this payment.
 - ✓ Capital income on earnings and losses of capital: Capital incomes are revenues earned or received in cash or kind, from the operation or disposition of assets under any legal concept. Earnings and losses of capital are changes in the equity value of taxpayer; as a result of the sale of goods, or assignment or transfer of rights. Also, capital incomes are those derived from gambling, betting, donations, legacies and any other similar income. When the amount of capital income is greater than or equal to 40% of total income from economic activities, these incomes pay the same taxes of economic activities.

IVA

Value Added Tax

- Is applied to the following activities performed in Nicaraguan territory, with a tariff of 15 percent of the value of a product or of an activity carried out; except the export of goods of the national production and the services provided abroad:
 - ✓ Goods transferred.
 - ✓ Import of goods.
 - ✓ Exports of goods and services.
 - ✓ Provision of services or use of goods.



Selective Consumption Tax

- An indirect tax that is applied to the transfer and import value of goods and merchandises in annexes I, II and III of the Tax Law. Exports are subject to 0 percent of ISC.

Stamp Tax

- Applies to certain documents listed in article 240 of the Tax Law when they are issued in Nicaragua or when issued in foreign countries, but take effect in Nicaragua.

Real Estate Tax

- It must be paid by December 31st every year, is applied to properties located within the boundaries of each municipality. The real estate tax payment is one percent over the base, which can be established in:
 - ✓ Municipal Land Registry Appraisal: Based on the application of the guidelines of Land Registry of DGI-MHCP. The land appraisal can also be outsourced by the Mayor's Office to companies specialized in land and property appraisal.
 - ✓ Self-Appraisal: Is declared by the tax payer based on the property's description according to formats, value tablets and municipal costs provided by the municipal Mayor's Office. The property value is estimated by the tax payer, the value is based on the book value or acquisition value of the property minus the accumulated depreciation, whichever is highest.

Municipal Income Tax

- Establishes the payment of a monthly tax equal to one percent of total gross income. This tax applies to any person or entity engaged in the sale of goods, industrial activity or the provision of services.

Municipal Registration Tax

- The amount of registration tax is 2 percent of the average monthly gross income from the sale of goods and services in the last three months of last year. In cases of starting a business, the municipal registration tax is 1 percent of the social capital.



Customs Duties on Imports

- Taxes are contained in the Central American Import Tariff and apply to the CIF value of goods imported outside of Central America. DAI taxes are applied proportional to the value of the imported goods.



Labor Law

- Spanish will be the default language to use in all labor relations, except for the Caribbean Coast which uses the languages of its communities.
- It is mandatory for employees to hire at least 90% of Nicaraguan employees, except if the Ministry of Labor authorizes the employers to hire more foreign employees for technical reasons.



Fringe Benefits

- Paid Vacations: All workers have the right to take 15 continuous days of vacation, fully paid, for every six months of uninterrupted labor by the same employer.
- Christmas Bonus (13th Month): For each year of continued labor, all workers are entitled to a 13 month of salary. The amount of this bonus is equivalent to a monthly salary. If the worker does not have a year of continued labor, the 13th month is calculated proportional to the months worked. This must be paid within the first 10 days of December. If the employer fails to comply, he or she must pay a compensation equal to one day's worth for each day of delay.
- Severance payment: An employer can fire an employee without cause, as long as the employer pays a severance payment according to the Article 45 of the Labor Code. This payment also applies if the labor relation ends by natural agreement or quit and consist in a payment of a month of salary per each worked year, during the first three years; and 20 days of salary per each additional worked year after the fourth year, no more than 5 months of salary. The applications of Article 45 have some limitations in cases of workers with union privileges.

Minimum guaranties

- Equal salary for equal work in the same conditions without discrimination of any kind.
- 8-hour workday, weekly rest, vacations, remuneration for national holidays and Christmas bonus in accordance with the law.
- Social security for full protection and livelihoods in cases of disability, old age, occupational hazards, sickness and maternity; and their families in cases of death, in the form and manner prescribed by the Law.



Social Security

- Every employee must be registered in the Nicaraguan Social Security Institute (INSS) within three days of beginning employment. The employer must withhold the social security contribution (6.25%) from the employee's salary and monthly pay the employer's contribution (18.5%) along with the employee's contribution to the INSS. In both cases, the salary subject to contribution will be up to CS\$ 77,934.88 monthly. From 2016, every 1st of January, the INSS will set the salary object to contribution by applying the annual change of the average salary of the monthly insured people.



Minimum Wage

- Nicaragua ranks as the country with the most competitive wages in the region, with wages of USD 0.50 per work hour in the agricultural sector and USD 0.67 in companies under the free zone regime.
- The Minimum Wage Law states that minimum wage will be fixed every six months according to the details of each job and industry. This fixation may be per unit of time, work, or task, and can be calculated per hour, day, and week, per fourteen days, fortnight or monthly.

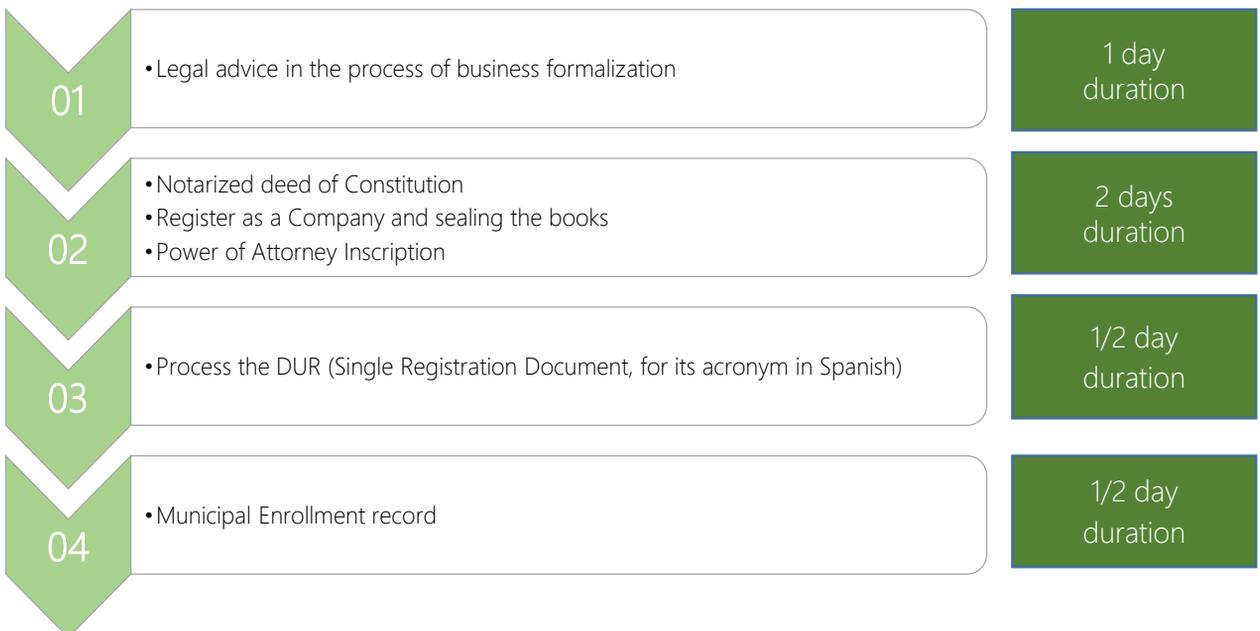
Setting Up a Company in Nicaragua

- The Investment One-Stop Shop (VUI, for its acronym in Spanish) is a center of business formalization coordinated by the General Department of Business Development and Linked Sectors of the Ministry of Development, Industry and Trade, as part of the functions granted by the laws for consolidation of national and foreign investments of Nicaragua. In the Investment One-Stop Shop, entrepreneurs and investors can perform the basic steps to formalize all kind of businesses, despite of origin (domestic or foreign), economic activity (textile, food, construction, among others) or size (micro, small, medium and large company).





Steps for setting up a company with the VUI



*Note: This process applies to the Department of Managua and does not include the time spent before the arrival of the investor to the VUI (Example: signing of the constitutional act and power of attorney, purchase of accounting and corporate books).



Recommendations for a Successful Investment

• Here are a number of basic recommendations that an investor must follow to ensure the successful establishment and start of operations of its investment project in Nicaragua. These recommendations could keep the investor out from setbacks and inconveniences during the investment process:

1. Look for legal advice. You should seek the support of a law firm with extensive experience in the country, to seek advice on labor issues, incorporation of companies, buying or leasing property, paying taxes, permits or licenses, and many other operational or legal issues.

2. Contact to the local investment promotion agency. These institutions have qualified staff that can provide key information, guidance and facilitation services to investors throughout the investment process in the country.

3. Obtain necessary permits and licenses to operate. It is required that all companies have all permits and licenses required before starting operations in Nicaragua. The key documents are:

- ✓ Unique Taxpayer Registry number (RUC, for its acronym in Spanish) at the General Revenue Department (DGI, for its acronym in Spanish).
- ✓ The Municipal Registry by the corresponding City Hall.
- ✓ The compliance record of workplace safety requirements with the Ministry of Labor (MITRAB, for its acronym in Spanish).
- ✓ Affiliation of employees to the Nicaraguan Social Security Institute (INSS, for its acronym in Spanish).

4. Get the necessary permissions to build. Building permits are required by the City Hall and the Ministry of Environment and Natural Resource (MARENA, for its acronym in Spanish) before starting any construction job. The City Hall grants the Construction Permit that certifies that the drawings fulfill the requirements established by that authority. On the other side, the environmental permit, which must be requested to MARENA, is an indispensable requirement that can involve the certification of an environmental and sanitary engineer during the planning and designing stages.

5. Learn about the incentives and benefits available. The Government of Nicaragua encourages all foreign investors interested in investing in priority sectors of the economy, to properly inform themselves of the attractive tax benefits offered to investors in order to accomplish with the requirements and then enjoy these benefits.



*Companies with special twists in regulated industries may require permits and/or additional licenses (Some of these documents can be obtained in a single procedure).



6. Legalize their immigration status in the country. A legal residency status is required to work in the country, manage bank accounts and participate as a legal representative of a company. After the constitution of the company, you can apply for Temporary or Permanent Residence at the General Immigration Department (DGME, for its acronym in Spanish) presenting all the documentation required by the institution, some of which must be authenticated by the Nicaraguan consulates in the country of origin. Make sure both you and the foreign staff who will work on your project legalize their status before starting operations in the country. If you have Nicaraguan residence, you don't have to remain in the country for the duration of a residence visa; you can leave and return to the country as much as the business demands.

7. Check the legal status of the properties. Before buying a property, the investor should ask to the owner a registration history of the property, which allows you to check if there is any conflict of legitimacy. Also ask for the "Freedom of Lien" document to make sure that the property does not have any debt. Additionally, depending on the background of the title to the property and, if necessary, the owner must submit the "Certification of No Objection" issued by the Attorney General's office, which certifies that there are no irregularities with the property. This document is required to register the property under the name of the buyer, especially for those properties that were affected by the agrarian reform. It is also important to identify if the property of interest is under a special regime like Coastal Zones or belong to indigenous communities.





We at García & Bodán, are ready to help you in all of the process detailed before, with experience 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:



Terencio J. García Montenegro
Regional Managing Partner
terencio.garcia@garciabodan.com



Carlos E. Téllez Páramo
Managing Partner García & Bodán
Managua
carlos.tellez@garciabodan.com



Federico A. Gurdíán Sacasa
Partner García & Bodán
Managua
Head of Corporate and Transactional Practice
federico.gurdian@garciabodan.com



Eduardo A. Cabrales Cuadra
Managing Partner García & Bodán
San Juan del Sur
Head of Real Estate Practice
eduardo.cabrales@garciabodan.com

The information presented is updated every 6 months and may be outdated. Said information is of general nature, it is not legal advice. In case of needing advice, please contact one of our offices.

Last revised date: February 28, 2017