



**GARCIA & BODAN**  
Attorneys & Counselors at Law

# DOING BUSINESS Nicaragua





# Nicaragua

**N**icaragua is the country in the Central American region with the largest territorial extension, bordered to the north by Honduras, to the south by Costa Rica, to the west by the Pacific Ocean, and to the east by the Caribbean Sea. It has a total area of 130,363.4 km<sup>2</sup>. Since 1990, Nicaragua has experienced substantial economic growth as a result of disciplined management of its fiscal, monetary, and the exchange policies.

Although the official language of Nicaragua is Spanish, English has gained increasing popularity and is mostly used in business.

## Solid Legal Framework

- The legal framework for investment in Nicaragua includes innovative general and special laws and regulations aimed at attracting investment, enacted over the past 15 years. These laws regulate specific aspects of the country's business environment, such as contracts, loans, investment and export incentives, stock exchange, banking, real estate, etc.
- The Foreign Investment Promotion Law offers investors fundamental guarantees to investors such as currency conversion; freedom to transfer capital and profits, dividends or income generated within the national territory abroad, after paying pertinent taxes; no minimum or maximum investment amount is required; depreciation of capital goods without restrictions; national loans are available through local banks, under their terms and conditions; 100% foreign ownerships allowed if permitted.

## Investment Promotion

- Nicaragua has the Secretariat for the Promotion of Foreign Investments and Exports (SPIEX), whose objective is to attract private investment, promote foreign trade, and national exports of goods and services, fostering a favorable investment and foreign trade climate.
- SPIEX contributes to government efforts in investment, export, and facilitation policies, fully coordinating with other public and private sector entities.
- It provides support and advisory services for the establishment of projects, whether as new investments (greenfield), expansions, or partial or total purchase of existing infrastructure in the country for expansion development (brownfield).
- Another state entity assisting in foreign trade facilitation and simplification of foreign trade procedures is the Single Window for Foreign Trade of Nicaragua (VUCEN), attached to the Ministry of Development, Industry and Commerce of the Government of Nicaragua.
- VUCEN is a technological platform for managing pre-customs import permits, export documents, port procedures, and other required export or import documents, authorized by the corresponding institutions according to their normative framework and without prejudice to the powers and functions of each public entity. VUCEN will succeed the former Export Procedures Center (CETREX).

## Strengthening Public Institutions

- The Attorney General's Office (PGR) has assumed new responsibilities for the regulation of Registration, Competition, Alternative Dispute Resolution Methods, and Human Rights (MARC).
- The National Procurator for the Defense of Free Competition and Alternative Dispute Resolution, attached to the PGR, has been created to strengthen regulatory institutions in Competition and MARC.
- The National Procurator for the Defense of Free Competition and Alternative Dispute Resolution aims to promote and protect free competition among economic agents, ensuring market efficiency and consumer welfare through the promotion of a competition culture, prevention, prohibition, and sanction of anti-competitive practices. It also serves as a third-party provider of assistance to parties to reach an amicable settlement of disputes arising from contractual or other legal relationships.
- The PGR has assumed the administration of the National Registration System to harmonize the property registration route, where various state institutions converged, providing greater speed and efficiency in requesting Public Ministry services, streamlining real estate transactions, and obtaining greater legal security and backing for acquired properties. Evidence of this is the establishment of new deadlines for document registration. From example, property registration times has been reduced from 30 days to just 8 days, demonstrating the efficiency and effectiveness of state management, eliminating the expedited processing fee, which increased service costs and fees to be paid at the Registry.
- Additionally, Law No. 1,192, the Law for the Certification of Environmental Permits and Authorizations, has been approved, empowering the PGR to issue an Environmental Certification on permits or authorizations issued by the Ministry of Environment and Natural Resources (MARENA) in accordance with Decree No. 20-2017, "Environmental Assessment System of Permits and Authorizations for the Sustainable Use of Natural Resources." The certification issued by the Procurator's Office is mandatory for the beneficiary to the begin their works, under penalty of administrative civil, and criminal liabilities

## Final Beneficiary Declaration

- Companies, both national and foreign, wishing to operate in the country must declare their Final Beneficiary, the natural person(s) who ultimately exercise effective control over a commercial company, legal entity, or other legal structure.
- The Public Registry of the Final Beneficiary aims to ensure the integrity, confidentiality, traceability, and security of the data managed in accordance with generally accepted international standards for data handling and protection; this complies with GAFILAT Recommendations to prevent money ML/TF/WMD.
- The Final Beneficiary Declaration at the Public Registry is an online process in which a natural person, through a Special Power of Attorney registered with the said institution, must provide all information related to shareholders and the legal representative of the company. If the shareholders are legal entities, information about them must also be provided.
- This process aims to strengthen the security and legality of operations in the country to combat money laundering from illicit businesses and prevent financing of terrorism and proliferation of weapons of mass destruction.

## State Procurement

- The National Assembly of the Republic of Nicaragua, through Law 1,178 of December 15, 2023, has created the State Suppliers Verification Commission, which began operating on March 1, 2024, at the Legislative Complex. It ensures compliance with the Suitability Requirements for Contracting and the prohibition regime for being a bidder for potential bidders participating in procurement processes exceeding five hundred thousand córdobas (C\$ 500,000.00).
- Interested parties in obtaining certification can do so by following a simple and straightforward process. First, it is necessary to download and complete the State Supplier Information Form from the links enable on the National Assembly's website, depending on whether the applicant is a natural or legal person. This form must be completed and accompanied by the minimum required documents.
- Certification applications must be submitted personally or through a legal representative at the Commission's offices, which will verify the provided information within 15 working days following receipt of the application. Communication about the status and results of the certification process will be made directly to the email address provided by the applicant.
- This service aims to streamline the necessary procedures to become a state supplier and improve transparency and accessibility of public opportunities for companies intending to be state suppliers.

## Permits for Mass Events

- For investors, both national and foreign, wishing to invest in the production, promotion, and organization of public artistic activities, events and shows, the Ministry of Interior (MINT) has created the Registry of Producers, Promoters, and Organizers of public artistic activities, events, and shows to ensure citizen and human security, as well as internal order in the national territory.
- Registration with this Registry is mandatory and free, requiring compliance with MINT's requirements, promoting order and ease of management in this area, and expediting permit request with the National Police, Fire Department, Directorate General of Revenues, Directorate General of Customs Services, and the local municipal government where the event is held. The deadline for permit requests is 30 days before the event.

- It is noteworthy that foreign producers must associate with a Nicaraguan Producer, Promoter, or Organizer domiciled in our country to carry out these activities in our country.

## Generous Tax Incentives

- The Tax Law, No. 822, “Tax Agreement Law, its reforms and additions”, describes a series of benefits for different sectors:

### Exporters

- 0% VAT rate on exports of goods or services produced within the country and provided to clients abroad.
- The taxable Selective Consumption Tax rate on the export of goods is 0%.
- A tax credit may be applied to advanced payments or annual income tax with prior authorization from the Tax Administration, equal to 1.5% of the FOB value of exports, provided that the incentive reaches and is transferred to the producer or manufacturer with their receipts.

### Agricultural Producers

- Article 136 indicates some services exempts for this sector, such as insurance premiums paid on farming contracts, energy supply for agricultural irrigation, and property leasing for agricultural use.
- Additionally, article 274 provides the possibility of exemption for producers from VAT and Selective Consumption Tax on transfers of certain raw materials, intermediate goods, machinery, and equipment to agricultural producers and micro, small and medium industries and fisheries through a list of taxes published by the Ministry of Finance and Public Credit (Ministerial Agreements 03 and 04–2019).
- Law No. 822, in its articles from 260 to 271, establishes a special regime for Agricultural Stock Exchanges to trade agricultural products, where a list of defined agricultural products is outlined in Art. 174 of the Law No. 822. This regime exempts VAT and establishes a final withholding mechanism of 1%, 1.5% and 2% depending on the type of goods traded up to an amount of C\$ 40,000,000.00 and also exempts municipal taxes.

### Forestry Sector

- Registered plantations in the regulatory entity will be exempted from paying 50% of the Municipal Income Tax.
- Areas where forest plantations are established and where forest management is carried out according to the Forest Management Plan will be exempt from Property Tax (IBI).
- Companies of any business type that invest in forest plantations can reduce 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 with at least 25% of total sales with an export value not less than USD 50,000.00 annually.

## **Free Trade Zone for Export**

- 100% income tax exemption during the first 10 years of operation and 60% from the 11th year onwards.
- Tax exemption on real estate transfers.
- Tax exemption on the installation, transformation, merger, and reforms of entities, as well as on the Stamp Tax.
- Exemption from all taxes, tariffs, and consumption obligations related to strengthening the company for its operations, as well as taxes applicable to benefits that satisfy the needs of the company's staff.
- Exemption on customs duties on transport equipment, including vehicles used for cargo, passengers, or services intended for the normal use of the company.
- Full exemption from indirect taxes, selective sales taxes, and consumption taxes.
- Full exemption from municipal taxes.
- Full exemption from export taxes on products processed within the zone.
- Tax exemption on local purchases.

## **Electricity Generation through Renewable Sources**

- Exemption from Income Tax for a period of 7 years.
- Exemption from paying obligation on the import of machinery, equipment, materials, and supplies used exclusively for the execution of pre-investment and construction works.
- Exemption from paying Value Added Tax on machinery, equipment, materials and supplies used exclusively for the execution of pre-investment and construction work.
- Exemption from all existing municipal taxes on property, sales, construction fees of the project for a period of 10 years (5 years in case of geothermal energy).
- Exemption from all taxes on the exploitation of natural resources for a maximum period of 5 years after the start of operations.
- Exemption from Stamp Tax that may cause the construction, operation or expansion of the project for a period of 10 years with the same fiscal benefits.

## **Exploration and Exploitation of Mines**

- Companies dedicated to mining must pay for surface rights and extraction rights. The advantages for this sector are:
  - ✓ Regime of temporary admission that allows the entry of goods within national customs territory, and the local purchase of goods or raw materials without paying any tax or tariff.
  - ✓ 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.

- ✓ Export tax of 0% applicable to all exports.

## Tourism Industry

- Tax exemption from 80% to 100% of the Income Tax (IR) for a period of 10 years.
- Exemption from Real Estate Tax (IBI) for a period of 10 years.
- Exemption from Value Added Tax applicable to design, engineering and construction services.
- Exemption of import tax and value added tax on the local purchases of goods, furniture, equipment and vehicles, and purchases of equipment that contribute to save water and energy, and those necessary for project safety. Likewise, exemption on the purchase of non-luxury materials and building accessories.

## Fishing and Aquiculture

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

## Ports

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

## Hydrocarbons

- An exemption of Import Taxes and Temporary Protection Tariff regulated under the Agreement on Customs and the Central America Tariff Regime.
- There is a Specific Conglomerate Tax on Fuels (IECC) with the objective of creating a unique tax on crude or partially refined oil and its 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.



# Tax System

- The Tax Law (Law No. 822) provides tax benefits to certain productive sectors of the economy with the aim of promoting growth and development. Exemptions and dispensations granted by this law are without detriment to those granted by the legal provisions listed in the article 287 in the mentioned law.

## Income Tax

- A personal and direct tax is applied to Nicaraguan source income obtained by taxpayers, whether residents or not. That tax is applied to any increase in capital that is not justified and income that is not explicitly exempted by law. Income is classified as follows:
  - ✓ Labor income: Covers all types of compensation, remuneration, or earnings, whatever their designation or nature, in cash or in kind, arising from personal work provided to others. The taxable base of income tax for labor income is net income, which is the gross income minus deductible expenses.
  - ✓ Income from economic activities: These are those earned or received in cash or in kind by a taxpayer who provides products and services, including capital income and capital gains and losses, always when constituted or integrated as income from economic activities. Additionally, taxpayers must make a definitive minimum payment, calculated by applying a 1% for taxpayers whose gross annual income does not exceed C\$ 60,000,000.00; 2% for major taxpayers with gross annual income exceeding C\$ 60,000,000.00 but less than C\$ 160,000,000.00; and 3% for large taxpayers with gross annual income exceeding C\$ 160,000,000.00 proportional to taxable gross income. For the first three years, taxpayers are exempt from making this payment.
  - ✓ Capital gains and capital losses: Capital income with income received or earned in cash or kind, for the operation or disposal of assets under any legal concept. Capital gains and losses are changes in the net real value of the taxpayer; as a result of the sale of goods, assignment, or transfer of rights. Additionally, capital gains from games, raffles, donations, inheritances, and any other similar income.

## Value Added Tax

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

## Selective Consumption Tax

- An indirect tax that is applied to the transfer and import of goods and merchandise in annexes I and II of the Tax Law. Exports are subject to 0% of Selective Consumption Tax (ISC).

## Stamp Tax

- Applies to certain documents listed in article 240 of the Tax Law when they are used in Nicaragua or when used in foreign countries but have an effect in Nicaragua.



## Real Estate Tax

- In Nicaragua, every person who owns land as of December 31 of the previous year is required to pay Real Estate Tax (IBI).
- The IBI payment corresponds to 1% of the value of the land determined in the Municipal Cadastral Appraisal issued and notified by the corresponding Municipal Mayor's Office; in case there is no appraisal, a Self-Appraisal or a value estimated by the taxpayer may be presented; however, the Mayor's Offices already have a database that reflects the value of each piece of land located in the municipality.
- The IBI can be paid in a single payment; or in two payments corresponding to 50% of the amount to be paid, one between the months of January, February and March; and the second, no later than June 30. The above according to Article 21 of Decree No. 3-95.
- Article 22 of Decree No. 3-95 establishes that in case of making a single IBI payment between the months of January, February and March, a 10% discount is applied.

## Municipal Income Tax

- It establishes the payment of a monthly tax equivalent to 1% of the gross total income. This tax applies to any person or entity performing an economic activity, whether industrial, commercial, or service provision.

## Municipal Registration Tax (Enrollment)

- The Municipal Registration Tax is 2% of the average gross monthly income from sales of goods and services from the last tax period. In cases of starting a business, a one-time tax payment is required according to the social capital.

## Customs Duties on Imports

- They are the taxes in the Central American Import Tariff and apply to the importation of goods and merchandise outside the Central American area, on the CIF value of the same. The DAI are proportional to the value of the merchandise.



# Labor Law

- Spanish will be the standard language used for labor relations, except for the Caribbean Coast, which uses community languages.
- Employers are required to ensure that at least 90% of their employees are of national origin unless the Ministry of Labor authorizes the employment of more foreign employees for technical reasons.

## Social Benefits

- **Paid Vacations:** All workers entitled to take 15 continuous days of paid vacation for every six months of uninterrupted work for the same employer.
- **Christmas Bonus (Thirteenth Month):** For each year of continuous work, all workers are entitled to a thirteenth month of salary. The amount of this bonus is equivalent to one month's salary. If the worker does not have a year of continuous work, the thirteenth month is calculated proportionally to the months worked. This must be paid within the first 10 days of December. If the employer fails to fulfill this obligation, they must pay a compensation equal to one day of pay for each day of delay.
- **Severance Payment:** An employer may dismiss an employee without cause, provided the employer pays compensation according to article 45 of the Labor Code. This payment also applies if the employment relationship ends by mutual agreement or resignation and consists of one month's salary for each year worked, during the first three years; and 20 days of salary for each additional year worked after the fourth year, up to a maximum of 5 months of salary. The application of article 45 has some limitations in the case of unionized workers.

## Minimum Guaranties

- Equal pay for similar activities under the same conditions without any type of discrimination.
- Daily working hours, weekly rest, paid national holidays, and a Christmas bonus according to the law.
- Social Security with complete protection and benefits in health, old age, disability, death expenses, family allowances, and any other contingencies covered by law.



## Social Security

- Every worker must be registered with the Nicaraguan Social Security Institute (INSS) within the first three days of being hired. The employer must withhold the worker's social security contribution (7.0% of the worker's salary) and make the monthly payment of the employer's contribution, which is 21.5% for companies with fewer than 50 employees and 22.5% for companies with 50 or more employees, corresponding to the salary received.

## Minimum Wage

- Nicaragua ranks as one of the countries with the most competitive wages in the region, with wages of USD 0.55 per work hour in the agricultural sector and USD 0.87 in the free zone sector.
- The Minimum Wage Law establishes that the minimum wage will be adjusted every six months according to the type of work and industry. These adjustments can be made for units of time, work, or task and can be calculated per hour, day, week, fortnight, biweekly, or month.

## Establishing a Business in Nicaragua

- The One-Stop Investment Window (VUI) is a business formalization center coordinated by the Directorate General for Business Development and Related Sectors with the Ministry of Development, Industry, and Commerce, as part of the functions assumed by the Law on the Consolidation of National and Foreign Investment in Nicaragua.
- At the One-Stop Investment Window, entrepreneurs and investors can perform the basic steps to formalize any type of business, regardless of origin (national or foreign), economic activity (textile, food, construction, among others), or size (micro, small, medium, and large company).
- It is important to note that according to the circular issued by the Supreme Court of Justice on November 25th, 2020, once the commercial companies are registered, they have a period of 30 days to provide the final beneficiary information to the Final Beneficiary Registry of Commercial Companies.

### Steps for setting up a company with the VUI

STEP	DURATION
01 Legal advice in the business formalization process.	5 days
02 Notarial writing of the Constitution. Registration of the Company and performing the accounting books.	5 days
03 Registration of the Power of Attorney. Process the Single Registration Document or DUR.	10 days
04 Municipal Enrollment Record.	5 days

*Note: This process applies to the Department of Managua and does not include the previous time before the investor arrives at the One-Stop Investment Window. It is worth mentioning that the registration time of a company through the One-Stop Investment Window is 1 business day, since it has a computerized and online system that allows registration to be done immediately.*

# Recommendations for a Successful Investment

- Below is a series of basic recommendations that an investor should follow to ensure that the establishment and start of operations are successful for an investment project in Nicaragua. These recommendations can help maintain the investor free from setbacks and inconveniences during the investment process:
1. **Seek legal advice:** It is recommended to seek advice from a local law firm with extensive experience in the country, to seek advice on labor issues, company incorporation, property purchase or lease, payment of taxes, permits, licenses, and many other operational and legal issues.
  2. **Contact the local investment promotion agency:** This institution has qualified personnel who can provide timely information, guidance and facilitation of services to investors during 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 before starting operations in Nicaragua. The key documents are:
    - ✓ Single Taxpayer Registry number (RUC) at the Directorate General of Revenue.
    - ✓ Municipal Registration by the corresponding Municipality.
    - ✓ Proof of compliance with labor safety requirements by the Ministry of Labor (MITRAB).
    - ✓ Employee affiliation to the Nicaraguan Social Security Institute (INSS).
  4. **Obtain the necessary permits to build:** Construction and land use permits are required by the Municipality and the Ministry of Environment and Natural Resources (MARENA) before starting any construction work. The Municipality must issue a construction permit certifying that the plans comply with the requirements established by the competent authority. On the other hand, the environmental permit, which must be requested from MARENA, is an essential requirement that may involve a certification by an environmental engineer and sanitary engineer during the planning and design phases.
  5. **Know about available incentives and benefits:** The Government of Nicaragua encourages foreign investors interested in investing in priority economic to inform themselves adequately about the tax benefits offered to investors, who can enjoy these benefits after complying with the requirements.
  6. **Legalize their immigration status in the country:** A residence status is required to work in the country, manage bank accounts, and participate as a legal representative of the company. After the constitution of the company, you can apply for Temporary or Permanent Residence at the Directorate General of Migration and Foreign Affairs (DGME) by presenting all the required documents for the institution, some of which must be authenticated by the Nicaraguan consulate in the country of origin or apostilled by the corresponding body in each country of origin. Make sure that both you and the foreign staff who will work on the project legalize their status before starting operations in the country. If you have Nicaraguan residency, you do not have to leave the country during the duration of the visa or residency; you can enter and return as often as the business requires.
  7. **Review the legal status of the properties:** Before making any investment, the investor must request the property registry history, which allows verifying if there is any legitimacy conflict. . Also, request the “Freedom of Gravamen” document to ensure that the property does not have any lien that limits your rights to freely dispose of the property. Additionally, depending on the property’s title or property history, it may be required by some institutions to obtain the “Non-Objection Certificate” issued by the Public Prosecutor’s Office of the Republic, 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 in communal properties. Be aware of special titles issued by the State and what implications they may have if the property is within a special area such as Coastal Zones, Forestry Reserves, or properties of indigenous communities.

*\*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).*

We, at García & Bodán, are ready to support you in all legal matters of interest for your business or company. We have highly qualified lawyers in investment matters.

For more information related to investment issues or any of the topics included in this document, please contact:



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Last revised date: July 2024.

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