

# DOING BUSINESS IN HONDURAS





# FOREWORD

This guide has been prepared with the purpose of providing basic information to people interested in investing and doing business in Honduras. It does not cover in detail all the requirements and subjects to be considered, but instead it is intended to provide an overall idea of the benefits of doing business in Honduras and the basic taxation requirements.

The guide is intended to be used for informational purposes only and therefore, you should consult a professional tax and business advisor to acquire more information.

The material contained in this guide is based on information and regulations in effect as of May 2020.





# ABOUT H&CO

Since 1992, H&CO has been providing international tax and business advisory services to multinational companies, global families and local companies that seek to invest or expand their operations in multiple jurisdictions in Latin America.

By working together with our affiliates in the region, we offer integrated solutions to help companies with all of their cross-border requirements and reporting obligations, from opening a new company abroad, and manage your operations, to helping you create an international tax strategy and repatriation plan.

With 3 offices throughout South Florida and partner firms in more than 15 countries in South and Central America, H&CO's primary goal is to be the most trusted service provider of accounting, tax and consulting services for the global community.

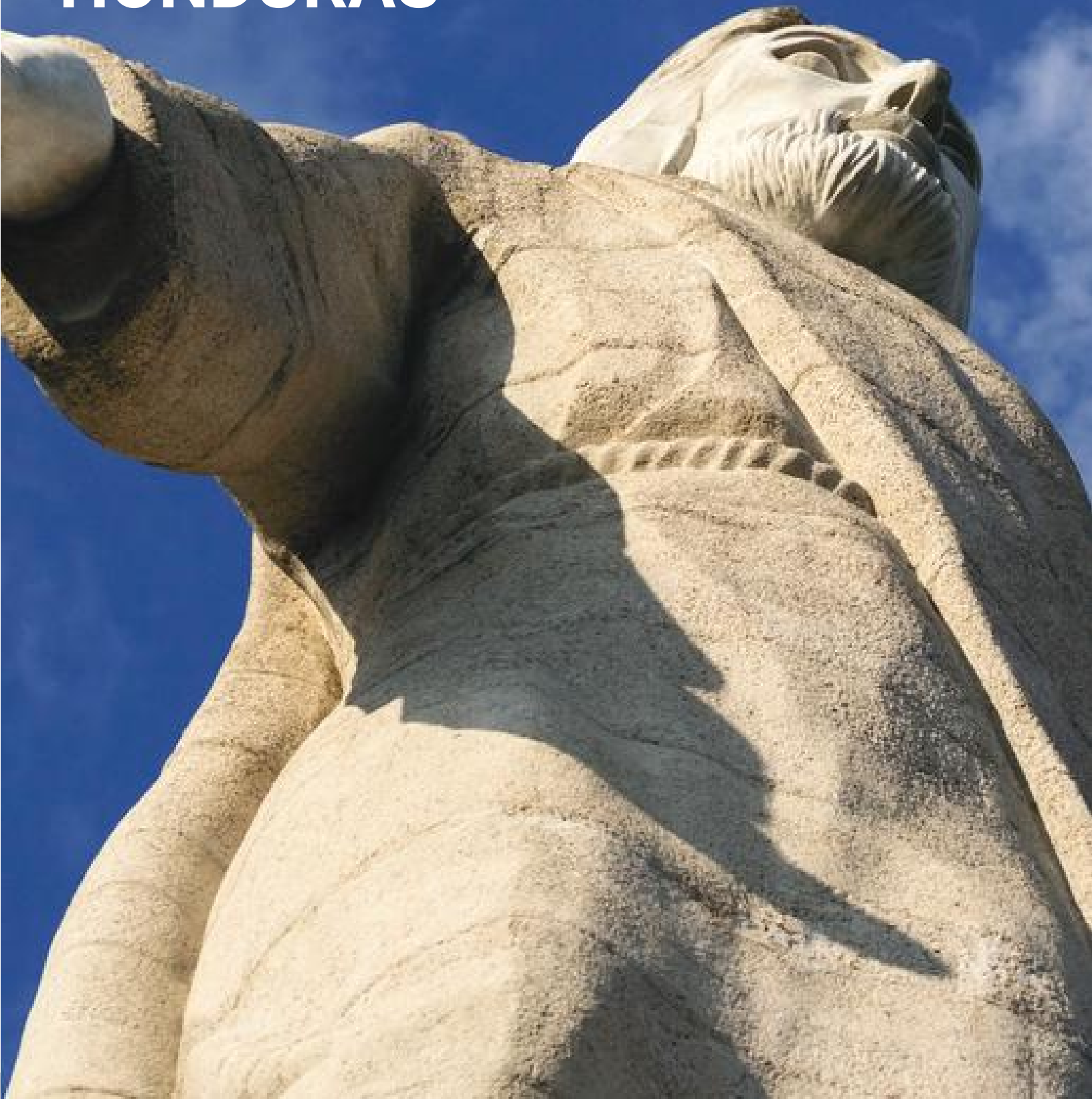




# COUNTRY ESSENTIALS

Capital city	Tegucigalpa M.D.C
Area and population	112,090 km <sup>2</sup> and a population of 9,235,340 people (July 2020 est.)
Language	Spanish
Currency	Lempira (HNL)
International calling code	+504
GDP	\$ 24 billion USD (2018 est.)
GDP per capita (PPP)	\$ 2,547 USD (2018 est.)
Exports	\$ 8.7 billion USD (2018 est.)
Imports	\$ 12.2 billion USD (2018 est.)
Inflation rate	4.1 % (2018 est.)
Government structure	Honduras is governed within a framework of a presidential representative democratic republic. The President of Honduras is both head of state and head of government. Executive power is exercised by the Honduran government. Legislative power is vested in the National Congress of Honduras. The Judiciary is independent of the executive and the legislature.

# WHY YOU SHOULD DO BUSINESS IN HONDURAS





## **STRATEGIC GEOGRAPHIC LOCATION**

Honduras, located at the center of Latin America, is only a 2-hour flight away from several U.S. airports, and 48 to 72 hours by sea. The country has ports on both the Atlantic and the Pacific Oceans that are served by several shipping companies that connect the country with the rest of Latin America, Asia, Europe and Africa.

Boasting the lowest logistics costs in the region, Honduras serves as a distribution platform for the rest of Central America. Puerto Cortés, the largest deep-water port in the region, is the first of the four operational ports in Latin America to qualify under both the Megaports and Container Security Initiatives (CSI).

## **COST-EFFECTIVE LABOR MARKET**

Honduras has a significant supply of available labor for a wide variety of industries. Sectors related to automotive parts, electric power systems and renewable energy equipment, food processing and packaging machinery, safety

and security equipment, and tourism services make the country a competitive labor market and promising growth projections.

The cost of labor in Honduras is considered one of the lowest in the region and it stands out for the availability of trained bilingual professionals, many of them certified by the Southern Association of Colleges and Schools (SACS).

## **FAVORABLE LEGISLATION FOR STARTING AND OPERATING A BUSINESS**

For commercialization purposes, the country can be divided in two regions – The North Coast, which includes the industrial and commercial capital City of San Pedro Sula; and the Central Region, where the largest city and political capital Tegucigalpa is located; generally, a single distributor or representative is usually sufficient to cover both regions.





### **FREE TRADE ZONES**

Honduras has a variety of free trade zones, the largest of which is in Puerto Cortés and is operated by the National Port Authority (*Entidad Nacional de Puertos*, ENP). There are also private free zones, product of legal extensions of free trade zones. Most foreign companies, including some Fortune 500 companies, are located in these areas, and enjoy, among other benefits, free currency conversion; duty free imports on all production machinery, spare parts, raw materials and supplies; approval for import and export of cargo in one day or less with a minimum of documentation; no federal income, sales or corporate taxes or fees; and unrestricted repatriation of profits and capital at any time.

In addition, companies operating outside these Export Free Zones which also export at least 95% of total production to markets outside the Central American region, qualify for the Temporary Import Law, under which they can import raw materials into Honduras without paying customs duties or consular fees. Income tax exemption for up to 10 years can also be obtained under certain conditions.

### **MEMBER OF THE CAFTA-DR TREATY**

Under the United States - Central America Free Trade Agreement (CAFTA-DR), most tariffs and other barriers are eliminated for U.S. goods destined to Central America. Additionally, the CAFTA-DR provides investment and intellectual property protection from the United States and creates a more transparent framework for conducting business. The treaty also aims to eliminate tariffs within Central America and facilitate trade increase, benefiting U.S. manufacturing companies in Honduras.

With the implementation of the CAFTA-DR agreement, approximately 80% of goods from the United States can now enter tax free. Bilateral trade within the CAFTA-DR trade area amounts to approximately USD\$ 32 billion annually.

### **GOVERNMENTAL COMMITMENT TO FOREIGN INVESTMENT**

The Honduran government's investment policies are crucial for economic growth and development. Honduras is in the process of becoming the fifth country in the world and the first of the Central American region to implement Employment and Economic Development Zones (ZEDE), an economic model designed to promote investment by foreign companies and accelerate economic growth under stable and highly competitive standards. This model of economic development is recognized by focusing on guarantees and benefits for optimal trade development, including labor and tax advantages where there is an independence of powers.

# TAXATION







## **CORPORATE TAXES**

Corporate income tax is levied on income derived worldwide by corporations and business entities resident in Honduras, and on income derived from Honduran sources by non-resident entities.

Both resident and non-resident companies are taxed a rate of 25%.

Corporate residence is determined by the Honduran authorities as the place of incorporation. Non-resident companies are those registered outside of Honduras. Additionally, any person or business entity resident in Honduras is subject on both domestic and foreign income.

Generally, all expenses incurred in the generation of taxable income can be deducted from income taxes, with the exemption of interest paid to shareholders and capital losses.

## **TAXES ON CAPITAL GAINS AND DIVIDENDS**

There is an ordinary tax rate of 10% on capital gains, regardless of the place of residency of the person. This tax is reduced to 4% if the person or company is a beneficiary of the Special Tax Regime of the Free Tourist Zone.

Currently the withholding tax on dividends is 10%.

## **ESTATE AND GIFT TAXES**

Honduras does not levy estate or gift taxes.

## **SALES / VAT TAXES**

A sales tax is levied on the sale of goods, the provision of services and imports at a rate of 15%. There are exemptions for certain items and services, such as machinery, equipment and pharmaceutical products, among other items.

Alcoholic beverages and tobacco have a VAT rate of 18%.



## EMPLOYMENT TAXES

Withholdings on income from employment are applied according to the following contribution percentages:

	Employee	Employer
Social Security	6.5%	8.5%
Private Contribution Regime (RAP)	1.5%	1.5%

## PERSONAL TAXES

Individual income tax is applied according to the following progressive rates:

If the income is:	Tax rate:
165,482.07 to 252,330.80	15%
252,330.81 to 586,815.84	20%
586,815.85 and over	25%

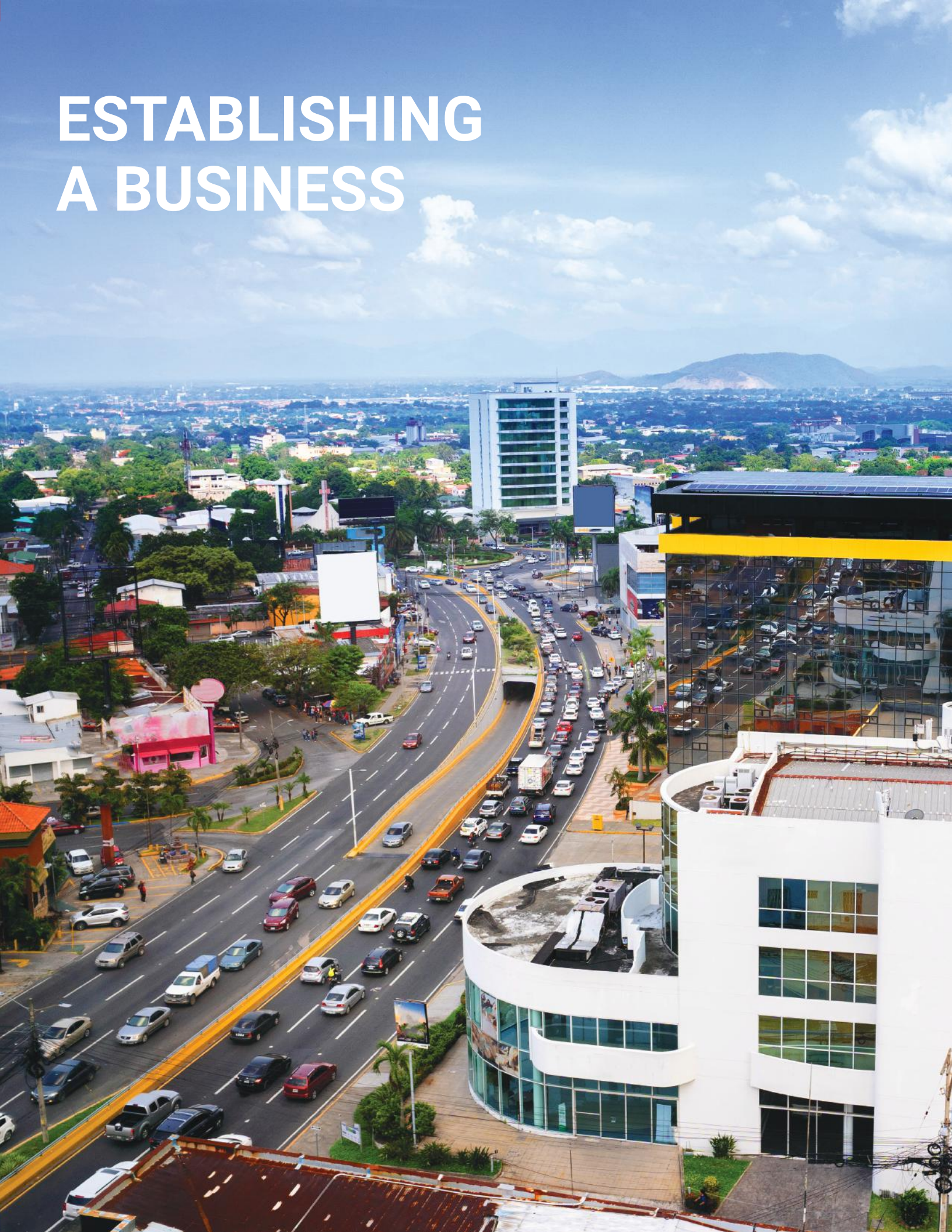
*All values are in Lempiras (HNL)*

## TRANSFER TAXES

For all sales of real estate, the seller, whether individual or entity is required to pay a transfer tax of 1.5% of the transaction value or the cadastral value of the land, whichever is greater.



# ESTABLISHING A BUSINESS





## PROCESS TO INCORPORATE A COMPANY

An investor aiming to establishing a business entity in Honduras requires 11 procedures over an average of 42 days, according to the Ease of Doing Business index by the World Bank.

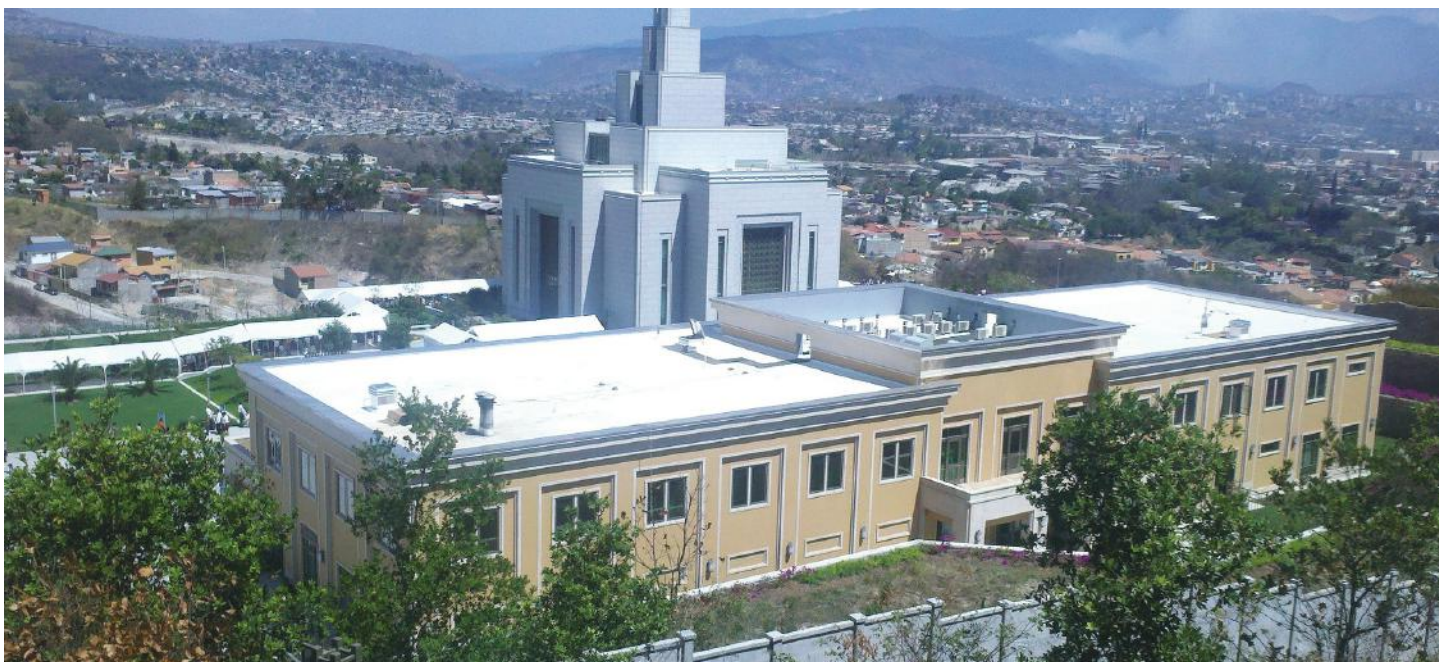
PROCEDURES	TIME TO COMPLETE
Procure a certificate of deposit at a local bank; pay the registry fee	1 day
Establish the company before a Notary Public, who will draw up the articles of incorporation	2 days
File the articles of incorporation with the Mercantile Registry	2 days
Apply for a tax identification code ( <i>Registro Tributario Nacional, RTN</i> )	1 day
Acquire legal accounting and minutes books	1 day
Register with local and national Chambers of Commerce	30 days
Apply for an operational permit ( <i>Permiso de Operación</i> ) from municipal authorities	1 day
Register for Sales tax	2 days
*Register at Social Security Institute ( <i>Instituto Hondureño de Seguridad Social, IHSS</i> )	3 days
*Register at the Professional Training Institute ( <i>Instituto Nacional de Formación Profesional, INFOP</i> )	1 day
* Register at the Social Housing Fund ( <i>Régimen de Aportación, RAP</i> )	1 day
<b>Total number of days</b>	<b>42 days</b>

Note: Steps marked with an asterisk (\*) may be completed simultaneously.

# REQUIREMENTS TO INCORPORATE A COMPANY







The *Sociedad de Responsabilidad Limitada* (S. de R.L.) similar, to a Limited Liability Company, is the most common form of incorporation in Honduras. Shareholders of a S. de R.L. are liable only to the value of their shareholding.

### **COMPANY NAME**

Honduran regulations require company names to be unique and approved by the national registry. The company name must be in Spanish and an English translation or abbreviation can be added. Additionally, company names must end with the suffix "*Sociedad de Responsabilidad Limitada*" or its abbreviation "S.de R.L".

### **REGISTERED OFFICE**

Under Honduran regulations, all companies are required to have a registered office where documents may be legally served. In addition, companies are required to have a legal representative with permanent domicile in Honduras.

### **DIRECTORS**

A Limited Liability Company registered in Honduras can have only one director, and there are no restrictions on the nationality or residence of the directors. Directors can also be shareholders.

### **SHAREHOLDERS**

A Limited Liability Company registered in Honduras must have a minimum of two shareholders, but no more than 25. There are no restrictions on the nationality or residence of the shareholders. At least one annual shareholder meeting is required and must be called by the director with at least 8 days in advance.



# MARKET OPPORTUNITIES AND COMMERCIAL SECTORS





### **TEXTILE INDUSTRY**

Honduras is the textile and clothing leader in Latin America. Textile companies around the world choose the country as an investment destination for this industry due to the talent of its workforce, whose capacity and high quality standards place it as one of the most profitable and competitive countries in the region.

According to the National Investment Council, Honduras is the number 1 exporter of cotton t-shirts to the United States and has 18 industrial parks representing 1.8 million m<sup>2</sup>.



### **AGROINDUSTRY**

Honduras is well endowed with agricultural land, forests and marine resources, making it the second country in the region in terms of arable land with an area of approximately 1.8 million hectares.

The country has productive fishing areas in both oceans and coastal resources that have made Honduras the largest shrimp exporter in Central America.

It has a high production potential in agriculture, with access to water and roads in the main centers of agricultural development and a varied tropical climate that allows agricultural production throughout the year of many items, including tilapia, shrimp, sugar, cocoa, coffee and bananas, among others.



### **OUTSOURCED SERVICES**

Honduras is the new destination for outsourced business process and information technology services (BPO / ITO), and currently has the presence of large players in the call center industry. With an annual growth of 6%, this sector was identified as one of the fastest growing sectors, as it has all the key components for this type of services: human resources, infrastructure and connectivity, positioning the country as one of the most qualified in Central America.

The BPO sector is concentrated in the two main cities, Tegucigalpa and San Pedro Sula, where 95% of these companies serve the U.S. market and the remaining 5% Canada and other countries.



OFFICES:

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**Brickell**

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Miami, FL 33131

**Ft. Lauderdale**

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