

Doing Business

A guide for Nicaragua



2018



Preface



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After two consecutive years of economic contraction, this year's growth in the Central America and Dominican Republic region will exceed the average of other regions in Latin America.

The gross domestic product (GDP) of the countries in this region has registered positive changes during this year. Among the factors favouring a better economic environment for the region we can mention the measured recovery in global economy and better growth expectations for the United States, largest trading partner of the region. We should also mention the slight increase in the global trade volume, a higher level of prices of commodities, and an increase in the income from remittances.

This Doing Business seeks to provide a broad understanding of the key aspects to invest in the Central America and Dominican Republic region. In this guidebook we intend to answer the main questions each foreign company and investor has as they enter our markets for the first time, as well as keep informed those companies who already have a presence here and would like to be updated on relevant topics.

Leveraging on our vast experience in the establishment of companies in the region, our Tax & Legal team has developed this complete guide which reflects the changes in regards to taxes, legal forms and accounting and business practices. Additionally, it offers a brief description of each country in the Interamericas region.

As a guide, however, this publication serves mainly as a starting point. Should you need more information, our advisors will be ready to help you individually.

On behalf of PwC Interamericas, I hope you find this information be useful and I wish you the very best in your future investments.

Foreword

Doing Business 2018 is the fourth edition of a series of yearly guidelines offering information about culture, climate for investment, as well as tax systems for Central America and the Dominican Republic. This document is made up by a series of indicators on business regulations for tax, legal and regulatory compliance, based on laws applicable in each country.

The Central American and Dominican Republic region is ideal for investing and starting up businesses due to its fertile ground for investment. Most of its economies are going through a period of stable growth, which makes them an ideal place to start new business. Each country has appropriate legal regulations and incentives to protect and encourage investors, which the authorities aim to highlight all around the world. Regarding their geographical location, this is a privileged region since it is located close to some of the most important ports and cities of the world, which facilitates global commerce. This territory is full of investment opportunities.

Our objective is to provide essential basic information about aspects which may help the investors establish and manage a business in this region, be it an independent entity, a branch of a multinational company, or a subsidiary of an existing multinational company. It also covers essential basic information for those who are considering relocating permanently to live or work in any of the countries in Central America or in the Dominican Republic.

PwC offers personalized services to our clients, which places us as leader in the market, and makes us the trusted advisor in most of the negotiations that take place in the region and in the world.

This is a general guideline and was not created as a comprehensive advice document. Due to the speed of change and the complexity of some of the related topics, we recommend that this guideline be used along with the appropriate professional advice of our team, which specializes in tax, legal and legal topics, and who will provide the help you need after carefully considering your circumstances and objectives.



Edgar Mendoza

Partner and Regional TLS Leader



Nicaragua

Nicaragua takes its name from Nicarao, chief of the indigenous tribe that lived in time of the Spanish conquerors. In 1524, Hernandez de Cordoba founded the first permanent Spanish towns, Granada, on Lake Nicaragua, and León. Nicaragua gained independence from Spain in 1821, becoming a part of the Mexican Empire.

The Constitution was ratified in 1858 (to be in effect for 35 years) and Managua was established as the capital city.



Nicaragua

Chapter content

9 *Overview of the country*

- Brief history.
- Climate.
- Population, form of government, language, currency.
- Education.

11 *Political and Legal System*

- Legal framework.
- Main political parties.

12 *The Economy*

- Inflation.

13 *Doing business*

- Government views toward foreign investment.
- Free Trade Agreement and other agreements.
- Other free trade zone agreements currently in effect.
- Foreign investment.
- Establishing a business.
- Tourism Law
- Renewable Energy Incentives Law
- Public Private Partnerships Law
- Law of Legal Stability for Investments
- Investment Funds Law

The Economy, cont.

Banking system

16

- Central bank.
- Commercial banks.
- List of banks.

Labor and social security

17

- Labor supply.
- Labor law requirements.
- Social security.

Accounting and audit requirements and practices

20

- Accounting.
- Statutory audit requirements.
- Books and records.
- Accounting profession.
- Auditing standards.

Tax System

21

- Other tax regime.
- Corporate deduction.
- Tax incentives.
- Transfer pricing ruling.
- Corporate tax compliance.
- Individual taxation summary.
- Individual deduction.
- Individual tax compliance.



Overview of the country

Brief history

Nicaragua takes its name from Nicarao, chief of the indigenous tribe that lived in time of the Spanish conquerors. In 1524, Hernandez de Cordoba founded the first permanent Spanish towns, Granada, on Lake Nicaragua, and León.

Nicaragua gained independence from Spain in 1821, becoming a part of the Mexican Empire. After separating from Mexico, in 1823 Nicaragua joined a federation of independent Central American provinces with other Central American countries. In 1838, Nicaragua separated from the federation, which dissolved a month later. In 1845, three years after trying to form a union, Nicaragua went to war with Honduras and El Salvador.

In 1847 there was a new attempt to unite. The history of Nicaragua is marked by tensions between the parties, conservatives and liberals. The Constitution was ratified in 1858 (to be in effect for 35 years) and Managua was established as the capital city. On November 5, 2006, the presidential election was won by Daniel Ortega of the Sandinista National Liberation Front (FSLN), Current government.

Climate

Nicaragua has a predominantly tropical climate, alternating between two seasons: rainy and dry (winter and summer). This is the result of its geographic location between 11 and 15 degrees latitude north and the humidity from both the Atlantic and Pacific oceans which give it a fairly stable season.

In the central region the rainy season lasts from May to October. The dry season occurs from November through April. During December the weather is more temperate. The warmest months are March, April and May, Nicaragua's "beach season."

The climate along the Caribbean Coast has the highest temperatures and humidity. The temperatures in this region are similar to those in tropical jungles, ranging above 89° F.

Population, form of government, language, currency:

Area	130,373 km ²
Population	6.3 millions of inhabitants (2016)
Population per km ²	48.0 hab/km ²
Population growth	1.0% (est. 2016)
Urban Population	56%
Political System	Republican democracy
Form of Government	Presidential
Language	Spanish
Currency	Cordoba (NIO)
Administrative division	15 departments, 2 autonomous regions, and 153 Municipalities
Religion	No official religion (Predominant religion is Roman Catholic)
Capital City	Managua

*Sources: Central Bank of Nicaragua (BCN). National Institute of Development Information (INDE), Nicaraguan Institute of Territorial Studies (INETER).

Education

Currently, 75% of the population is younger than 39 years and elementary, high school, and university education are mandatory, the first two being free. There is one Nicaraguan branch of a US University that has been accredited by Southern Association of Colleges and Schools (SACS). The Nicaraguan government is increasing funding to improve educational opportunities in the country, and has promoted increased enrollment for both grammar and high school, as well as for universities.

All schools, including elementary, high school and university, are under the general supervision and regulation of the National Ministry of Education.

*Sources: ProNicaragua/National Institute of Development Information

Political and legal system

Legal framework

The political and legal framework of Nicaragua is composed of four main branches – Executive, Legislative, Electoral and Judicial – organized as follows:

<i>Political and Legal Framework</i>				
	<i>Ejecutivo</i>	<i>Legislative</i>	<i>Judicial</i>	<i>Electoral</i>
<i>Exercised by the:</i>	The President	National Assembly	Supreme Court of Justice	Supreme Electoral Council
<i>Composed of:</i>	The President	Chamber of Deputies (90 deputies, 20 national deputies and 70 departmental deputies, plus 2 more deputies: the former President and the Presidential Candidate who obtained second place in the elections).	16 Judges	7 Judges and 3 Deputies
<i>Elected or appointed by:</i>	The President and Vice-President are elected by direct vote every 5 years.	The deputies are elected by direct vote every 5 years.	The judges are appointed by the National Assembly every 5 years.	The judges are appointed by the National Assembly every 5 years,.

The Nicaraguan legal framework is based on Napoleonic Code.

The last presidential elections were held in November 2016 and the last Municipal elections were held in November 2017.

Main political parties

The recent trend has been toward fewer political parties participating in the presidential election, as evidenced by the last two elections.

Currently, the four major political parties are:

- Constitutional Liberal Party (14 seats in the National Assembly).
- Nicaraguan Liberal Alliance (2 seats).
- National Liberation Sandinista Front (71 seats).
- Independent Liberal Party (2 seats).

There are also a number of other small parties which have been in existence for some time and a few that are still relatively young. Attempts to create new political parties are often largely unsuccessful due to the strengths of the larger parties.

The economy

As a result of years of economic liberalization and the implementation of policies intended to stimulate national and foreign investment, Nicaragua now has one of the most dynamic economies in Central America, due in large part to a substantial increase in private investment and exports.

Economic Data - 2016	
GDP	US\$ 13,230.1 millions
Real GDP Growth	4.7 %
GDP per capita	US\$ 2,090.8
Total Exports	US\$ 4,839 millions
Foreign Direct Investments (FDI)	US\$ 887.8 millions
Foreign Direct Investments (FDI) as percentage (2016)	8.6%
Annual Inflation	3.1 %
Stable Currency	Fixed devaluation of Córdoba with respect to USD equivalent to 5% per year
International Reserves	US\$2,447.8millions

Sources: Pronicaragua/Central Bank of Nicaragua/ProNicaragua

Foreign Direct Investment Inflows reached US\$ 1,442 million in 2016. FDI attracted in 2016 was led mainly by the manufacturing industry, telecommunications, commerce and services, which together represented 70 percent of all investment inflows to the country. The development of these sectors has contributed significantly in increasing the country's productive capacity and boosting its economy.

Nicaragua index of FDI as a percentage of GDP was 8.6% in 2016.

	2012	2013	2014	2015	2016
Nominal GDP (US\$ m)	10,460.9	10,850.7	11,805.6	12,692.5	13,230.1
Real GDP growth (%)	5.1	4.5	4.7	4.9	4.7
Prices and financial indicators					
Exchange rate: US\$ (end-period)	24.1	25.3	26.6	27.9	29.3
Lending interest rate (avg; %)	12.89	15.55	11.66	11.84	
Current account (US\$ m)					
Trade Balance	(2,447)	(2,510)	(2,168.6)	(2,545.3)	(2,612.1)
Goods: exports FOB	2,671.8	2,401.8	2,632.7	2,421.7	2,226.4
Goods: imports FOB	5,420.9	5,225.4	5,452.9	5,434.2	5,453.9
Service Balance	1,728.50	1,781.1	1,952.5	2,026.7	2,309.6
Income Balance	345.5	254.0	428.3	489.2	321.7
Current-account balance	-10.6	-11.1	-7.1	-8.2	-8.6
Unemployment					
Unemployment (avg; %)	5.9	5.7	6.6	7.0*	4.0

Sources: ProNicaragua/Central Bank of Nicaragua

*Non official figure, source: http://www.economywatch.com/economic-statistics/Nicaragua/Unemployment_Rate_Percentage_of_Labour_Force/.

Inflation

According to the Consumer Price Index (CPI) inflation for 2016 was 3.1%, ergo slightly higher than in 2015 (3.05 %), hence lower than the average for the past five years (6%).

Doing business in Nicaragua

Government attitude towards foreign investment

Foreign investment legislation grants foreign investors the same rights and responsibilities as domestic investors.

Some aspects of the Foreign Investments Law relate to the definition of foreign investment, registration, rights granted and arbitration.

Free trade agreement and other agreements

Nicaragua has signed the following free trade agreements, among others:

- **The Dominican Republic - Central American Free Trade Agreement (DR-CAFTA) with the United States of America:** Nicaragua, along with the four other Central American nations and the Dominican Republic, signed a free trade agreement with the U.S. This agreement eliminates duties for most Central American exports to the U.S. and helps integrate the Central American economies into a single trading block.
- **Free Trade Agreement with Panama:** On October 12, 2007 Free Trade Agreement negotiations with Panama concluded; signing of the Protocol Agreement on Bilateral Cooperation and Integration is still pending. The objective of this agreement is to attract investment and to open agribusiness markets.
- **Free Trade Agreement with Mexico and the Dominican Republic:** Nicaragua has signed Free Trade Agreements with Mexico and the Dominican Republic that permit duty-free trade for certain key products.
- **Free Trade Agreement with Taiwan:** The agreement came into effect on January 1, 2008, and is expected to further increase bilateral trade.
- **Free Trade Agreement between Central America and Chile:** The bilateral protocol was ratified on August 2011. It includes the reduction of duties, the specific rules of origin and other terms related to reserves in the services chapter, as well as an asymmetric treatment for Nicaragua, as reflected in the schedules for reduction of duties.
- **Generalized System of Preferences (GSP):** The Generalized System of Preferences (GSP) is the result of a global effort by industrialized countries to grant preferential market access to developing countries. The GSP is a unilateral beneficial tariff granted to imports from developing countries. Nicaragua benefits from the GSP with Japan, Colombia, the European Union and Canada.
- **Central American Common Market (CACM):** Nicaragua, Honduras, El Salvador, and Guatemala have signed an agreement to integrate their economies in order to achieve greater

competitiveness in the global marketplace. The union has created a common customs territory among the countries that will result in the free movement of all products, regardless of their origin, and the elimination of customs requirements between the countries.

- ***Bolivarian Alliance for the Americas (ALBA)***: The ALBA is a social and economic cooperation agreement among Venezuela, Ecuador, Bolivia, Cuba, Nicaragua, Antigua & Barbuda, Dominica & St. Vincent and the Grenadines.
- ***Association Agreement between Central America and the European Union***: The Central American countries signed an agreement with the countries of the European Union Association based on three independent, fundamental parts: political dialogue, cooperation and trade.

Pending Negotiation Agreements

- ***Free Trade CA4 and Caribbean Community (-CARICOM)***: This trade is already in force to Costa Rica and CARICOM. The negotiations formally started on August 2007. Panamá is also incorporated to the negotiations.
- ***Free Trade Central America CA4-Canada***: This agreement is at the negotiation phase, the objective is to promote and develop the investment and the opportunities for local exports.
- Free Trade ALBA.
- Partial Scope Agreement between the Republic of Cuba and Nicaragua.

Foreign investment

Law No. 344 for the Promotion of Foreign Investments establishes equal treatment of foreign and domestic investment eliminates restrictions on the way in which foreign capital can enter the country, and recognizes the foreign investor's right to own and use property without limitation.

The law also stipulates:

- Total currency conversion.
- Freedom to repatriate all capital and profits.
- No pre-established minimum or maximum investing amount.
- 100% international ownership permitted; there is no restriction against foreign investors, whether in total ownership of the company or as shareholders.
- Accelerated depreciation of capital goods.
- National loans accessible through local banks, according to their terms of approval.
- Property protection and security. Nicaraguan law recognizes and guarantees the legal rights of national or international investors, their property rights and the right to dispose freely of the goods, capital and the profits of the company (all as established under the law).
- Equal treatment for foreign and local investors.

Destination of foreign investment

Foreign investments have been centralized on Telecommunications, Energy, Manufacturing, Tourism and Services.

Restrictions of foreign investment

There are no restrictions in Nicaragua on converting or transferring funds associated with investments. Many transactions are freely and fully conducted in U.S. dollars. Remittances of investment capital, earnings, loans and lease repayments are freely allowed through the private foreign exchange market operated by local financial institutions.

Establishing business in Nicaragua

Business activities, including forms of enterprise, are governed mainly by the Commercial Code effective since 1917.

Business may be undertaken in the name of individuals and/or entities that are granted legal status as legal entities.

The forms of legal entities are:

Business structures

- General Partnership (Sociedad en Nombre Colectivo).
- Ordinary Limited Partnership (Sociedad en Comandita Simple).
- Joint-stock Company (Sociedad en Comandita por Acciones).
- Stock company (Sociedad Anónima).

General formation procedure

- Drafting of Public Deed of Incorporation.
- Application for registration as a business person.
- Registration of Corporate and Accounting Books.
- Recording of Board of Directors minutes and appoint a Legal Representative of the Company.
- Registration of the General Power of Administration at the Commerce Registry.
- Registration of the company before tax, social security and municipality authorities.

General closing procedures

- Recording of a shareholder's resolution to dissolve and liquidate the company.
- Appointment of a liquidator to pay the company's obligations and distribute the remaining assets to the shareholders.
- Registration of the public deed of dissolution before the Commerce Registry.

Branch and/or permanent establishment:

Foreign entities must register either as a branch or subsidiary, to conduct business activities in Nicaragua.

Registration procedure

In order to register a branch the following documentation must be filed before authorities.

- Name of the entity establishing the branch and the mailing address of its main office; country or state of organization or incorporation; business to be conducted by the branch; certificate from appropriate agency of the country or state of organization or incorporation, indicating it is duly registered and authorized to do business; copy of articles of incorporation or equivalent on file with the authorities of the country or state as applicable.
- Certified copy of the resolution of the appropriate body approving the incorporation of a branch in Nicaragua and also granting a local representative power to obtain the authorized domicile, as it is mandatory to appoint a local representative to file the request.

Joint venture (Asociación Temporal)

This type of business structure is regulated under sections 329-332 of Nicaraguan Commerce Code. Basically, the terms and clauses must be negotiated in the Joint Venture Agreement.

Banking system

Central Bank

Banco Central de Nicaragua (the Central Bank of Nicaragua) was created by Article 148 section 19 of the Constitution of 1950 through legislative decree no. 525 dated July 28, 1960.

It began operations on January 1, 1961 as a government institution with operational autonomy, indefinite duration, independent funding and legal identity. It is governed by Article 99 of the current Constitution, which establishes that “The Central Bank is the regulator of the monetary system of Nicaragua”.

In 2010, the legal framework of the bank was modernized through Law 732 “Law of the Central Bank of Nicaragua,” which defines it as an autonomous, decentralized institution of the Government, technical in nature, of indefinite duration, legal identity, independent funding and complete capacity to enter into legal contracts. The bank’s main office is in the city of Managua.

Commercial banks

Banking entities established in Nicaragua provide a full range of services that include, among others, credit cards; loans for the purchase of vehicles; loans for personal expenses; leasing operations; mortgage loans; saving accounts; checking accounts; investments through deposit certificates; short and long term loans; management of letters of credit; document collections; industrial credit; factoring; and sale and purchase of foreign currency. The Superintendent of Banks and Other Financial Institutions (SIBOIF) is the public entity that supervises banks, and financial and insurance entities.

The General Law of Banks, Law No. 561 enacted on November 2005, modernized the banking business.

List of banks

Central bank

- The Central Bank of Nicaragua.

Commercial banks

- Banco de la Producción, S.A. (BANPRO).
- Banco FICOHSA Nicaragua, S.A. (FICOHSA)
- Banco LAFISE Bancentro, S.A. (BANCENTRO LAFISE).
- Banco de América Central, S.A. (BAC).
- Banco de Finanzas, S.A. (BDF).
- Banco Procredit, S.A. (Procredit).
- Banco Corporativo, S.A. (BANCORP)
- Banco de Fomento a la Producción (Banco PRODUZCAMOS)

Representation offices of foreign banks

- Banco Internacional de Costa Rica (BICSA).
- Banco de Desarrollo Económico y Social de Venezuela (BANDES).
- Tower Bank International, Inc.
- LAAD Americas N.V.

Labor and Social Security

Labor Supply

Desempleo 2012-2016					
Desempleo	2012	2013	2014	2015	2016
	5.9	5.7	6.6	7.0*	4.0

Fuente: Banco Central de Nicaragua/INIDE

Labor law requirements

The regulation of the Nicaraguan work relationships are based on the country's labor code, the highest law regarding employment matters. This law is intended to protect employees and employers and specifies their rights and obligations.

Below is a summary of the most important requirements of the Labor Law.

Sources: Superintendence of Banks

*Non official figure, source: http://www.economywatch.com/economic-statistics/Nicaragua/Unemployment_Rate_Percentage_of_Labour_Force/

Wages and salaries

The current minimum wages (expressed in Cordoba “C\$”) applicable from the month of September, 2017 through February, 2018 in accordance with the notification enacted by the Ministry of Labor on February 21, 2017, are shown below:

Industry	Monthly (C\$)	USD Equivalent
Agriculture*	3773.82	3773.82
Fishing	5,738.20	5,738.20
Mining	6,777.61	6,777.61
Manufacturing	5,074.31	5,074.31
Industry subject to fiscal regime **	5,044.69	5,044.69
Micro and small craft Industries and national tourism	4,054.76	4,054.76
Electricity, gas and water; commerce, restaurants and hotels, transportation, warehousing and communications	6,921.93	6,921.93
Construction, Insurance and Financial Institutions	8,445.44	8,445.44
Community, social, and personal services	5,290.48	5,290.48
Central and municipal government	4,706.12	4,706.12

(* Salary plus meals (** As of January 2017. Source: Ministry of Labor

Profit sharing

Under the Nicaraguan Labor Code profit sharing is not mandatory for companies.

Christmas bonus

At the end of each calendar year the employee is entitled to an additional month of salary (bonus). If the worker has not completed a year of continuous work, the additional month of salary is calculated proportionally to the months worked during the year. Payment is due within the first ten days of December.

Costs for the Employer	% of Ordinary Gross Salary
Vacation	8.33%
Christmas Bonus – 13th Month	8.33%
Severance Payment	8.33%
Holidays	2.5%
Social Security	19% effective Jan, 1 2017
INATEC (National Technological Institute)	2.00%
Total	48.5%

Source: Nicaraguan Labor Code and Social Security Law

Work shifts

The maximum working hours for a daytime shift are 8 hours daily, and should not exceed 48 hours per week. For a nighttime shift the maximum is 7 hours daily, and should not exceed 42 hours per week. For mixed shifts (daytime and nighttime shifts), the maximum is 7.5 hours daily and should not exceed 45 hours per week.

Vacations

After each continuously worked year, employees are entitled to thirty days of paid vacation.

Severance payment

Whatever the cause may be for the termination of a contract, the employer is obliged by law to pay the employee the proportional part of his benefits, such as vacation, Christmas bonus and work compensation. Also, when the employer rescinds an open-ended contract without just cause, he must pay the employee the equivalent of the following:

- One month of salary for each of the first three years of work,
- 20 days of salary from year four through six.

In no case shall the payment be less than one month or greater than five months. Any fractions of years will be compensated proportionally.

Technical education tax

National Technological Institute (INATEC): Employers must pay the equivalent of 2% of the employee's monthly gross salary. This fund is available for training for workers from the contributing company.

Foreign personnel

Under Nicaraguan Labor Code, Section 14, all companies are required to employ a workforce that is at least 90% from Nicaraguan citizens, with a maximum 10% of foreign personnel. As an exception and for technical reasons only, the Ministry of Labor can approve a higher percentage to hire foreign personnel.

Social Security

The Nicaraguan Social Security System is conducted and regulated by the Nicaraguan Institute of Social Security (INSS) according to Decrees 974 and 975.

The Social Security regime, as stated in the before-mentioned law, is composed of four insurance systems:

The Social Security regime, as stated in the before mentioned law, is composed of four insurance contingencies:

- Disability.
- Retirement age.
- Death.
- Occupational Hazard Insurance.

For Social Security taxes, the employer social security contribution for 2018 is 19% of the gross salary, and the employee social security contribution is 6.25% of its gross salary. The taxable salary for 2017 was up the amount of C\$ 82,953.89, which will be increase in 2018 based on the annual variation of the average wage of the insured workers.

Accounting and audit requirements and practices

Accounting

The Institute of Public Accountants of Nicaragua (CCPN) is the regulatory body of the accounting profession. On May 10, 2010, this Institute established mandatory adoption of International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for the Small and Medium Size Entities (IFRS for SME) for accounting periods beginning on or after July 1, 2011.

Financial institutions, regulated by the Superintendence of Banks of Nicaragua, must use as accounting framework The Unique Accounting Manual. This manual, along with additional regulatory standards are issued by Superintendence of Banks of Nicaragua.

Statutory audit requirements

According to the income tax law, the accounting period should be calendar year, except for companies, that due to the nature of its operating cycle request to and get the approval by Fiscal Authorities.

Statutory audit is not required in Nicaragua. However, regulations by Superintendence requires to financial institutions to obtain audited financial statements from debtors for loans greater than US\$750,000.

Financial institutions regulated by the Superintendence of Banks must have audited financial statements, which should be submitted to such Superintendence 90 days after calendar year end. Additionally, financial institutions are required to publish in newspapers of national distribution its annual audited financial statements at least 120 days after calendar year end.

Books and records

Under Nicaragua's Code of Commerce, Section 28, companies are required to:

- Keep an inventories ledger and balance sheets (not used in practice).
- Keep Journal and General Ledgers.
- Keep a Corporate Stock Ledger.
- Keep a ledger for letters and telegrams (not used in practice).

All ledgers must be kept in Spanish except the ledger of letters and telegrams. If there is any legal ledger in a foreign language, this should be translated it into Spanish. The books also need to be bound and each page must bear the stamp of the Nicaraguan Department of Commerce registration office.

Accounting profession

The accounting profession is regulated by Law No. 6, Accounting Public Exercise Law, issued in the official newspaper: La Gaceta No. 94 of April 30, 1959. The Institute of Public Accountants of Nicaragua (CCPN) is the regulatory body of the accounting profession.

Auditing Standard

CCPN has established The International Auditing Standards (ISA) as the auditing standards for Nicaragua. Superintendence of Banks also requests such standards to audit financial institutions.

Tax system

On November 30, 2012, the Nicaraguan Congress approved a tax reform bill that changes significantly the local tax system. This reform (Law No. 822), effective as of January 1, 2013, establishes among other important aspects, the following:

- Tax resident definition.
- Tax haven definition.
- Rules of permanent establishment (PE).
- Transfer pricing rules.
- Introduction of a dual tax system, segregating the taxation of personal income, economic activities, and capital gain or losses.

In Nicaragua the tax system is based on the territory principle, and with four major sources of taxable income which are administered by the following government agencies:

- General Incomes Services - DGI (Dirección General de Ingresos).
- General Customs Services - DGA (Dirección General de Servicios Aduaneros).
- Nicaraguan Social Security Institute - INSS (Instituto Nicaragüense de Seguridad Social).
- Municipalities – Alcaldías Municipales.

Tax on corporate income

The Nicaraguan corporate income tax rate is 30%.

Income taxes are levied only on domestic-sourced income at whichever is higher of the following rates:

- 30%, applied to net taxable income (gross taxable income less allowed deductions by law);
- Definitive Income Tax payment based on 1% of gross income obtained during the fiscal year.

The law establishes exceptions to the 1% definitive minimum tax, regulated as follows:

- During the first three fiscal periods of recently incorporated entities.

- Taxpayers whose sales are controlled by Government.
- Taxpayers that ceased operations by ‘force majeure’.

Excise tax

Goods that are considered to be nonessential are subject to excise tax: rum, beer, soda, juice, tobacco. The tax base is the CIF price for imported items, and the tax is levied and paid only at that stage.

Tax on branch income

- Income received is subject to corporate income tax.

Free Trade Zone tax

The Free Trade Zone Law – Law 917, relates to export-oriented industries, manufacturing, agribusiness, and contact centers. According to international agreements with World Trade Organization (WTO) members (Doha Article VII), Nicaragua will be one of the few countries in the region able to provide free zone and other tax incentives to exporters after 2008.

In August of 2004, as part of the incentive for DR-CAFTA (Dominican Republic and Central America Free Trade Agreement), Nicaragua was granted a special one-for-one provision (to a limit of 50,000 square meters of fabric) for free trade zone companies. This benefit, known as Tariff Preference Levels (TPL), was granted for a ten-year period that ended on December, 2014.

The tax benefits and exemptions provided by the Free Trade Zone are:

- Tax exemption on corporate income and property taxes.
- Tax exemption on municipal taxes.
- Tax exemption on customs taxes for the importation of capital goods such as machinery, equipment and raw material, and transport and support services for the Free Trade Zones.
- Tax exemption on value-added tax.

Export Processing Zone Tenant shall be entitled to: 10 years exemption of corporate income regulated as follow:

- 100% exemption for the first ten years, and
- 60% exemption from the eleventh year onwards.

The aforesaid tax exemptions can be renewed for one time only under the same rules.

Tax on dividend

Natural person, corporate and economic unit, resident or not in the country, will be subject to a withholding tax of 10%, which is applicable for tax residents and 15% for non-tax residents.

Tax on Capital Gain

As general rule, capital gains are subject to a 10% definitive withholding tax rate. Also, in case of

the capital gain arising from the sale of property, which is subject to annotation before the public registry office, the withholding tax will be calculated as follows:

Equivalent in Cordoba's of the property value in Dollars US\$	Withholding tax	
	From	To
0.01	50,000.00	1%
50,001.00	100,000.00	2%
100,001.00	200,000.00	3%
200,001.00	More	4%

Municipal sales and service tax

A monthly 1% tax is levied on all sales of the month of goods and provision of services payable to the municipalities of the city in which the service is provided or the goods are sold.

Municipal registration tax

An annual 2% tax is levied on the average gross income received during the last trimester. In the case of the incorporation of new establishment or enterprise, municipal registration tax is 1% of the capital invested.

Property Tax

This annual tax is levied at a rate of 1% on 80% of cadastral/surveyed value, as recorded by the government.

Value-added tax (VAT)

VAT is imposed at 15% general rate on the:

- Supplies of goods;
- Supplies of services;
- Importations of goods

Export of goods and services are subject to a 0% rate

VAT liquidation is determined by subtracting, VAT debit (sales of goods or rendering services), from VAT credit paid on transactions needed to generate taxable income for VAT purposes. VAT credits are applicable or allowed when related to goods/services subject to VAT. VAT paid on transactions to generate non-taxable income for VAT purposes are not allowed as VAT credits but may be proportionally applied.

VAT exceptions include:

- Medicine.
- Real estate transfer.
- Sales of used goods.
- Basic food products.

- Financial instruments.
- Tuition.
- Textbooks and educational supplies.

Other tax regimens

Tourism Investment Incentives Law (Law 306)

Tourism is a very dynamic industry in Nicaragua, due to the country's plentiful breathtaking natural resources and the fiscal incentives offered to investments in this industry.

Qualified tourism projects can receive the following tax benefits under Law No. 306:

- 80% to 90% income tax exemption:
 - Property tax exemption for 10 years.
 - Import tax and value-added tax exemption on the purchase of accessories, furniture, or equipment.
- Tax exemptions related to project implementation:
 - Value-added tax on design/engineering and construction services.
 - Exoneration of import duties and taxes and of the value added tax (VAT) for the local purchase of construction materials and fixed building accessories.
- Tax incentives can be extended if project undergoes extensive expansions.

Forestry Incentives Law (Law 462)

The New Forestry Incentive Law of August 2003 provides significant tax incentives for forestry plantations:

- 10-year tax exemption up to year 2023, on:
 - 50% of municipal taxes on sale of land.
 - 50% of profits.
 - The payment of taxes on real estate in the case of forest plantations and areas under forest management.
- Companies investing in forest plantations can reduce 50% of the amount invested as costs.
- Exemption from import duties for companies producing wood and paper products (excluding saw mills), on imports of machinery, equipment and accessories.
- All Government institutions must give priority in their acquisitions, to goods made from certified wood. Government agencies are permitted to pay 5% more for certified wood products than for non-certified products.
- 100% deduction of income tax when land is destined to reforestation projects or forest plantations.

Renewable Energy Incentives Law (Law 532)

The Law for the Promotion of Energy Generation from Renewable Sources promotes the development of new projects, expansion of existing ones, and biomass and biogas energy sources. Fiscal, economic and financial incentives are granted to this effect:

- Exemption of customs duties on the importation of machinery, equipment, material and raw material necessary for all construction of stations, including sub transmission lines necessary for energy transportation from the generation facility to the National Interconnected Grid (SIN).
- Exemption of the Value Added Tax (VAT) levied on machinery, equipment, material and raw materials utilized during pre-investment stage, construction of structures, including the construction of the sub-transmission lines necessary to transport energy to the National Interconnected Grid (SIN).
- For “isolated systems” with their own generation facilities, this exoneration covers pre investments, construction and all the investments made in distribution grids associated with the project (i.e. panels and solar batteries for solar energy generation).
- Exemption of the corporate income tax IR for a maximum period of seven years. During this same period, the income derived from the sale of carbon dioxide bonds will also be exempted.
- Exemption of all the Municipal Taxes on real estate, sales and registrations during the construction of a project, for a period of ten years to be applied in the following manner: exoneration of 75% during the first three years; 50% the five following years and 25% for the last two years. Investments in machinery, equipment, and hydroelectric dams will be exempted from all taxes and duties, for a period of ten years.
- Exemption of taxes on the exploitation of natural resources for a maximum period of five years after the beginning of operations.
- Exemption of Fiscal Seals Tax incurred by the construction, operation or expansion of a project for a period of ten years.

The deadline to apply for the tax benefits of this law ends on January 1, 2018.

Special Law on Exploration and Exploitation of Mines (Law 387)

- Allows companies to apply to the Temporary Admission System and other schemes to promote exports as established by the legislation for purposes of exemption or suspension of customs taxes.
- Exemption of import tariffs on machinery, materials, instruments, tools and other effects related to the mining activity.
- Exemption from taxes imposed on company property, within the perimeter of the mining concession.
- Exemption from taxes or tax burden directly or indirectly applied on the minerals before extraction, on the right to extract them, on the extracted mineral, cartage, benefits, transportation or storage of the minerals, as well as its sale or export.

Temporary Admissions System (Law 382)

Companies that directly or indirectly export at least 25% of total production (no less than US\$50,000 per year) may apply to the Temporary Admission System. This system allows both the entry of merchandise into the national customs territory, and the local purchase of goods or raw material without paying any kind of taxes or duties. This merchandise must be re-exported after being subjected to a process of transformation, repair or alteration. The company must request a suspension of duties and tariffs to competent authorities. If the company cannot apply for the suspension due to tax management reasons, it may later apply for a tax return, as long as it re-exports the merchandise that was temporarily admitted into the country. This system is managed by the National Commission for Export Promotion (CNPE).

International treaties to avoid double taxation

Currently, Nicaragua does not have any signed agreement or treaty with any country, to avoid double taxation.

Corporate deduction

Depreciation and depletion

Depreciation must be computed by the straight-line method. Depending on the type of construction and the estimated useful lives of fixed assets, annual rates for depreciation are as follows:

Class	%
Buildings	3, 5, 10
Vehicles	12, 20, 33
Plant and equipments	10, 14 20, 50

Net operating losses

The carry forward of losses are deductible during the following three fiscal periods in which they were incurred. Losses are deductible on a stand-alone basis per year; therefore they cannot be aggregated and deducted in one single year.

Taxes

Payments for services made from affiliates to foreign related parties are subject to 15% withholding tax and deductible for income tax purposes provided the requirements below are met:

- The expense is needed to generate taxable income.
- The expense is duly supported (agreement, invoices, payments receipts).
- The expenses are incurred within the fiscal period.
- The withholding tax is applied and paid to Tax Authorities.

Limitations: income tax expense is not deductible for corporate income tax purposes. Municipal or local taxes (property tax, municipal monthly income tax, annual registration tax) are deductible for corporate income tax. Many types of penalties or charges made by tax, customs, Social Security or municipal authorities are not deductible for income tax purposes.

Group taxation

Group taxation is not allowed.

Capital Incomes

- Dividends, Royalties, Interest, Software Programs paid are subject to 10% withholding tax applicable for tax residents and 15% withholding tax for non-tax residents. effective since December 18, 2014
- Lease of property assets are subject to 10% withholding tax for tax residents (with 30% deduction) and 15% for non-tax residents. effective since December 18, 2014.
- Lease of fixed assets is subject to 10% withholding tax for tax residents (with 50% deduction.) and 15% for non-tax residents. , effective since December 18, 2014.

Capital Gains

In general, capital gains are subject to 10% withholding tax on net income. Net income is the difference between the selling price and acquisition value, applicable to residents and non-residents. Non-residents are not allowed offset capital losses.

- Sale of assets not subject to annotation before the public registry office is subject to 10% of net income.
- Sale of shares of a Nicaraguan company is subject to 10% with a 50% deduction. Such deduction is applicable only when taken place outside of Nicaraguan territory. When taken place within Nicaraguan territory assets are subject to 10% of net income.
- When the taxpayer has difficulty to prove its acquisition cost, the withholding tax is levied to the 60% of the selling price.

Interest paid to financial institutions (banks) founded by foreign Governments are non-taxable of withholding tax.

Transfer pricing ruling

According to the Tax Law No. 822, effective as of January 1, 2013, incorporated transfer pricing rules, are effective as from June 30, 2017.

Tax incentives**Investment**

Under present law and on a case-by-case basis, new companies with tourism activities may request and the Government may grant, during the construction phase of the asset, total exemption of custom duties and, for income tax purposes, partial or total exemption for a maximum period of 10 years.

The renewable energy sector is covered by a special law that provides benefits or exemptions in corporate income tax, VAT, customs duties and municipal tax.

Free Trade Zone industries also have a special law with tax benefits or exemption in tax and custom duties in imports and corporate income tax, VAT and municipal taxes.

Corporate Tax Compliance

Returns

With some exceptions, corporations and individuals are required to file tax returns for a fiscal year within the following three months after the fiscal year ends, which is usually on December 31; however, companies can obtain authorization from tax authorities in order to change or have a different year-end.

Payment of tax

Corporations must pay fiscal-year income tax in monthly advanced payments. The monthly payable amount is calculated as 1% of gross income.

Year-end dates established by the Nicaraguan tax code

Section 50 of Law 822, states that the Nicaraguan ordinary tax year-end is calendar year, from January 1 to December 31. Additionally taxpayers can request to the Tax

Administration a special tax year-end that could be as follows:

- From April 1 to March 31 of the following year.
- From October 1 to September 30 of the following year.
- From July 1 to June 30 of the following year.

Individual taxation summary

Nicaragua taxes its citizens and all residents and non-residents on their income originating in Nicaragua. Taxable income that originates in Nicaragua obtained by non-residents or non-domiciled persons is determined as a percentage of gross income, depending on the nature of the income.

Income from work: are those coming from every kind of compensation and remuneration, whatever their denomination or nature, money or kind, that derive of the personal work rendered on behalf of others, such as: salaries, variable salaries, seniority bonds, bonuses, allowances, performance recognition and any other remuneration derived from work. There are no concessions of any kind to foreigners. Total personal gross income can be estimated ex officio by the fiscal authorities.

Tax residence: For tax purposes, a resident is defined as the person who meets any of the following conditions:

- Nationals or foreigners from abroad that with a stay in the country for more than 180 days, whether continuously or not.
- When the main center of economic interest is located within the country, unless the taxpayer proves its residence or tax domicile in another country through the corresponding certificate issued by the competent tax authorities. This will not apply when the country is considered by the Tax Authorities as a tax haven.

Residents are subject to the income tax according to the progressive tax rates as shown below:

Taxable income in US\$*		Applicable Rates
From	To	
\$0.0003	\$3,274	Exempt
\$3,274	\$6,549	15% from the excess of \$ 3,274
\$6,549	\$11,460	\$ 491 plus 20% from the excess of \$ 6,549
\$11,460	\$16,371	\$ 1,473 plus 25% from the excess of \$ 11,460
\$16,371	Or more	\$ 2,701 plus 30% from the excess of \$ 16,371

Non-residents, whether domiciled or not, that perceive Nicaragua's source income are subject to a 15% definitive withholding tax. .

Individual tax exemptions

The following deductions will be effective as of year 2014:

- 25% of educational expenses, health and professional services, up to the amount of C\$5,000 (approximately US\$164) for the first year; this limit will be increased in the following 3 years for the same amount until reaching C\$20,000 (approximately US\$ 655) in 2017.
- The employee's social tax (6.25%) of the gross income.
- The contributions from employees to saving funds and/or pension, other than social security, provided that these funds have the approval of the corresponding authority.

Tax exemptions

The following income from work is tax exempt:

- Up to the first C\$100,000 (approximately US\$ 3,274).
- The Christmas Bonus (1 month of salary) in accordance with the labor code.
- Compensation of up to 5 months of salaries and wages received by employees or their beneficiaries. The additional compensation (over 5 months) will also be exempt up to an amount of C\$ 500,000 (approximately US\$ 16,371); any excess will be taxed at 10%.
- Benefits in kind agreed in labor union agreements. .
- Compensations granted by the social security regime.
- The benefits paid by the savings funds and/or pension, if duly authorized by the corresponding authority.
- The means and services necessary to carry out the assignment, such as: travel expenses, telephone, vehicles, fuel, depreciation expenses, vehicle maintenance, representation expenses and reimbursement of expenses, as long as such benefits are not considered a simulation or concealment of income from work.

Individual tax compliance

There are 2 mechanisms for individuals to pay taxes on their Nicaraguan source income:

- **Withholding (Form IR-122):** Mandatory system for taxpayers that obtain income from single employer and do not benefit from the deduction for expenses on education, health or professional services mentioned in the previous section. The employer through the payroll is responsible to withhold and pay the income tax on a monthly basis through withholding income tax return Form IR-122. Social charges should also be withheld.
- **Remark.** The employer must submit the Annual Income form Work within 45 days after year-end.
- **Annual individual income tax return (Form IR-106):** This is applicable for taxpayers that obtain income from two or more employers that in the aggregate exceed an annual income of C\$100,000 (approximately US\$3,274). The taxpayer should submit the Annual Income Tax Return through Form IR-106, within 90 days after year-end.

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