

AUXADI

COMPLEXITIES IN NEW MARKETS

HONDURAS





In this series, we discuss some of the complexities to consider when expanding your business across borders, or if you're looking at multinational investment. There are many general issues, and different countries have very different legislation, regulation, and tax regimes.

Here, we review some of the complexities to keep in mind when expanding or investing into Honduras.

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Introduction

The Republic of Honduras is on the Central American isthmus, bordered by Guatemala and El Salvador to the west, Nicaragua to the south, and touching both the Pacific Ocean and the Caribbean Sea. It's capital, Tegucigalpa, is home to some 1.5 million of its 9.9 million population. Honduras depends on agricultural products such as bananas, coffee, and sugar for its foreign exchange earnings. This makes the economy vulnerable to commodity price and climatic changes.

In recent years, Honduras has registered the second highest economic growth rates in Central America; 4.8% in 2017, 3.7% in 2018 and 2.7% in 2019. However, the COVID-19 pandemic and major tropical storms had a large impact on the economy, with -9.5% growth reported for 2020 – but this is expected to rebound to around 3.5% for 2021.

The government has been developing strategies to increase employment, open markets and attract foreign investment. These policies are looking to take advantage of Honduran opportunities; its strategic location with access to both coasts, its growing industrial base, its young population, and a desire to diversify exports.

In June 2017, Honduras and Guatemala created a Customs Union, allowing free transit of more than 80% of goods using electronic transfer and real time tax payments. El Salvador joined this Customs Union in 2018. Although it only covers goods (and more than 25 categories are excluded), it does include, among others, vehicles, living animals, chemicals, dairy, tobacco, and cement. Free movement of people, however, is not yet permitted.



A member of the WTO since 1995, Honduras has signed 12 trade agreements, giving preferential treatment to more than 40 trade partners, the largest of which are the United States, Central American countries and the EU (in particular Germany). Honduras has 11 bilateral investment treaties which support the protection and promotion of investment with commercial partners.

Opportunities

Honduras is working on its renewable energy production for both community development and self-sufficiency. In 2018, most of the renewable energy produced was from hydropower, providing 34% of country's energy, along with biomass (10%), wind (7%), and geothermal (1%). But Honduras' solar production is now the second largest in all of Latin America, and government has pledged to 80% of total energy demand to be from renewable sources by 2038.

The government of Honduras has established a National Investment Council that promotes the development of local and foreign private investment to generate economic growth and employment. The Council focuses in six priority sectors; tourism, textile and clothing, light manufacturing, outsourcing services, agribusiness and social housing.

Further, there are priority sectors for infrastructure investment; airports/airlines, consulting skills (technical skills, language services, etc.), and smart cities, logistics, financial schemes, and so on.

In addition, the Public Private Partnerships (PPP) framework in Honduras is the most developed in Central America. Based on the General Law for the Promotion of PPPs (Decree 143-2010), public-private collaboration is permitted for the delivery of public works and services, thereby increasing investment that leads to economic development. Recent approved projects include a new international airport, modernisation of ports, highway networks, and electricity supply.

Honduras is full of opportunities, but navigating your way to them requires local advice.

34%

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FDI

Honduras ranks 133/190 on the World Bank's Ease of Doing Business 2020. Investments face various challenges, but the country has assets that attract foreign investors including good levels of productivity, decentralisation, privatisation of many sectors, and establishment of Free Trade Zones (ZOLI).

Foreign investment is regulated by the Investment Promotion and Protection Act, which introduced national treatment and new guarantees for foreign investors, like stability contracts, fiscal incentives and property protection regimes. There are some limits on which sectors foreign companies can operate in, since the state reserves exclusive rights for public order and public interest reasons, for example, activities related to public health, public drinking water supply, waste management, lottery, and others.

Honduran laws allow foreign companies to operate in the country, with some sector restrictions – operations in agriculture, fishery, forestry, etc., require the company to have Honduran majority ownership.

Four incentive programmes operate in Honduras: free zones, export and draw-back activities, free-trade zones and tourist zones, and a separate regime specifically for renewable energy investment (including various tax exemptions for 10-12 years).

Doing business & establishing a company

Launching a business in Honduras can take from 13 days up to 1 month, though once the entity is filed, registrations with the tax offices and specific permits to begin operations may take several months.

There are six types of entity to choose from, including Collective Societies. The most common, though, are:

	Sociedad Anónima (S.A.) – public limited company	Sociedad de Responsabilidad Limitada (S. de R. L.) – limited liability company
Description	A public limited company is one has a foundational capital divided into shares, whose partners limit their liability to the payment of their subscription.	This entity exists under a corporate name or under a denomination. The company name shall be formed under the name of one or more partners.
Partners / Members	There must be at least 5 partners, all of which subscribe to at least one share.	Maximum 25 members.
Share Capital	Not less than L25,000, fully subscribed. At least 25% of the value of each share payable in cash & displayed in cash. Value of each share paid (in whole or in part) with goods other than cash is displayed in full.	The sum of the contributions made shall not be less than L5,000, in parts of L100 or multiples of L100. Members are only obliged to pay their contributions, without the social parts, and never be represented by securities. Capital must be fully subscribed at incorporation.
Incorporation	Usually by simultaneous foundation, by appearing before a Notary Public, or by public subscription.	

New companies must register with the Mercantile Register and the National Tax Registry, and incorporation is not complete until operating licenses are obtained.



Tax, Accounting & Regulatory

Honduras began upgrading its tax system in 2016. Reforms have focused on the creation of a specific independent body to collect tax; Servicio de Administración de Rentas (SAR), and a new tax code.

The Honduran tax regime is based on the territoriality principle – companies (resident or not) are only taxed on Honduran-sourced income.

Companies domiciled abroad that have agents or representatives in Honduras are taxed in the same manner as residents on their income derived from activities undertaken in Honduras. Honduras does not have any active double taxation treaties.

Corporation tax is fixed at 25%, and is known as the 'income on lucrative activities regime'. VAT of 15% is payable on both domestic and imported goods and services.

Transfer pricing is particularly important in Honduras. If a Transfer Pricing study is not conducted, the government analyses differences between transactions by related parties vs independent parties. If the government identifies a difference, a 15% or 30% tax would be due on the difference.

Honduran accounting standards are ruled by International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs).

The individual responsible for signing the financial statements must be registered with the Official College of Surveyors and Public Accountants, or with the Honduran Association of University Professionals in Public Accounting, as well as being up to date in the payment of monthly fees.

Accounting Books must be submitted in January of the following fiscal year. They must be bound, foliated, and authorised by the competent territorial authority.

25%



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Labour & Payroll matters

The Honduran Labour Code includes regulations on vacations, social security, working hours, minimum wage etc. The minimum wage is renegotiated regularly between the government, private sector and labour unions, and is determined by sector and number of employees. It currently ranges between HNL 7,033.88 – HNL 13,346.47 per month (US\$292 – US\$554).

The maximum working hours are 8 hours per day and 44 hours per week, with at least one 24-hour rest period per week. Annual paid vacation must be at least 10 workdays per year, and two bonuses of two complete salaries are required per year (one paid in June and another paid in December).

There is also a requirement for all foreign companies to hire Honduran workers; at least 90% of the total workers must be Honduran and at least 85% of the total payroll has to go to Hondurans.

Banking

Opening a Honduran business bank account must be done by proxy with a deed registered with the Chamber of Commerce. Ultimate Beneficial Owner procedures are required, and documentation must include commercial and banking references.

Your bank account will be opened after the requisite AML/KYC checks have been completed. How long this process takes will depend on the strength of your documentation, though usually takes between two weeks and one month.

Conclusion

With its well-developed agroeconomic base, evolving industrial base, and fast-growing services and tourism sectors, Honduras is ripe for investment.

Our offices in San Pedro Sula and Tegucigalpa will provide the expert advice you need for every aspect of your Honduran operations. Auxadi can be your ideal business partner, providing assistance with incorporation, including directorships, and following up with accounting, tax and payroll services to help your business grow.



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Local Knowledge - International Coverage

Auxadi can help with every stage of your cross-border operations.

Auxadi makes your life easier by becoming an overseas extension of your finance department. Our team of experts take care of the accounting, payroll, and tax requirements of our clients.

We serve more than 1,700 clients from many different sectors, and they access information on their international subsidiaries through our unique MultiCountry IT platform, customized to their specific needs.

With subsidiaries in 22 countries, a wide affiliate network, and clients in +50 jurisdictions, we use our Local Knowledge and International Coverage to make your life easier.



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