

HONDURAS

COUNTRY FILE - 2019



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H O N D U R A S

The Republic of Honduras is located in Central America, bordered by Guatemala and El Salvador -to the west- and Nicaragua -to the south-, bounded by the Pacific Ocean and the Caribbean Sea. It has an area of 112,492 km² and 9.2 million inhabitants, from which 1.5 million are located in its capital, Tegucigalpa. The country is administratively divided into 18 departments.

Over the past few years, Honduras has maintained a constant economic growth, fortified by the inflow of foreign investment and family remittances. In 2018, according to the Central Bank of Honduras, the national GDP increased by 3.7%, among other factors, due to the good performance of the financial market, the transformation goods industry, and agricultural and commercial activities as well as communications. In the same year, the flow of FDI reached 1,225.8 million dollars.

Social indicators place the Honduran population among the lowest development ranks in Latin America, with a per capita income that, despite an upward trend, stood at \$2,330 per year in 2018. The rural area, which depends on agriculture, concentrates the highest levels of poverty (6 out of 10 households are in extreme poverty).

The Honduran services sector represents 61% of GDP, with a great boom in trade, hospitality, repair services, and real estate. In recent years there has also been a notable increase in Call Center services. The industry contributes 26%, especially the manufacturing and the maquila sector.

The Government has recently promoted several measures to generate jobs and attract investment. These include the 20/20 Plan, which seeks to boost the competitive advantages of the textile, manufacturing, housing, tourism, agribusiness and Business Process Outsourcing (BPO) services sectors. Another attractive feature of Honduras is the low cost of production due to the low price of energy. By 2019 the IMF raises growth expectations to 3.7%-4%.

Honduras: country overview



133rd

Ranked on the World Bank's Ease of Doing Business Index 2020



23.803 M\$

Gross Domestic Product



2.330 \$

GNI per capita / year



48,5%

Public debt



9.265.067

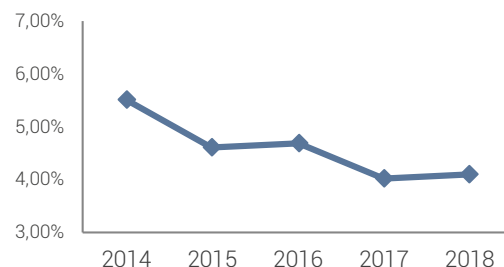
Inhabitants





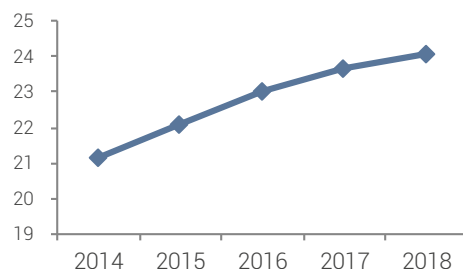
4,10%

Unemployment rate



Lempira

Monetary unit: L
Exchange rate



Main Economic Areas:



Agriculture



Manufacturing



Mining



Real Estate



A company in Honduras takes 42 days to set up. There are tools to attract foreign investors, such as the Single Investment Window, to speed up the registration of companies, or the 20/20 Plan, which identifies 6 competitive sectors.

42

days



The labor relations are regulated by the Labor Code. The minimum wage for an 8-hour working day is US\$505.7 by 2020. The Honduran Social Security Institute provides health coverage for all workers, through a fee payable by either employee or employer.

505,7

\$/month



The government has promoted foreign investment through several laws with tax exemptions, such as the Investment Incentive and Protection Act, and by establishing Special Regime Zones.

25%

ISR



Accounting and financial information shall be prepared and submitted for a review and certification under International Financial Reporting Standards (IFRSs) and International Standards on Auditing (ISAs).

NIIF's



Legal Aspects

The Honduran Code of Commerce considers six types of societies: Collective Society, Society in Simple Commandita, Society in Comandita by Shares, Cooperative Society, Society of Limited Responsibility and Anonymous Society. These last two are the most common when establishing in the country, especially the S.A.

	 Anonymous Society (SA)	Society of Limited Responsibility (SRL)
CONSTITUTION	A minimum of two shareholders is required.	Formed by one or several people, with a limit of 25 members.
RESPONSIBILITY	Shareholders are only responsible for the amount of their shares.	They are only required to pay their contributions.
ADMINISTRATIVE BODIES	May be administered by a Management Board or Sole Manager. The manager and the directors may be external to the company.	The management can be assigned to one or more individuals, partners or not, for a fixed or indeterminate period of time.
SHARES	The minimum capital is 1,018,90 USD /L25,000,00	The share capital cannot be less than 203,78USD/ L5.0000.
CAPITAL OBLIGATIONS	Shareholders should subscribe the entire share capital and pay at least 25% of the subscribed shares.	100% of the capital must be subscribed at the time of incorporation

Branches and Subsidiaries

Foreign entrepreneurs who want to establish in Honduras can choose between setting up a subsidiary or a branch. In the latter case, the authorization of the Secretariat of Industry and Commerce is required. It is also mandatory to accredit a permanent legal representative in the country and a minimum capital of 1,018.90 USD /L25,000.

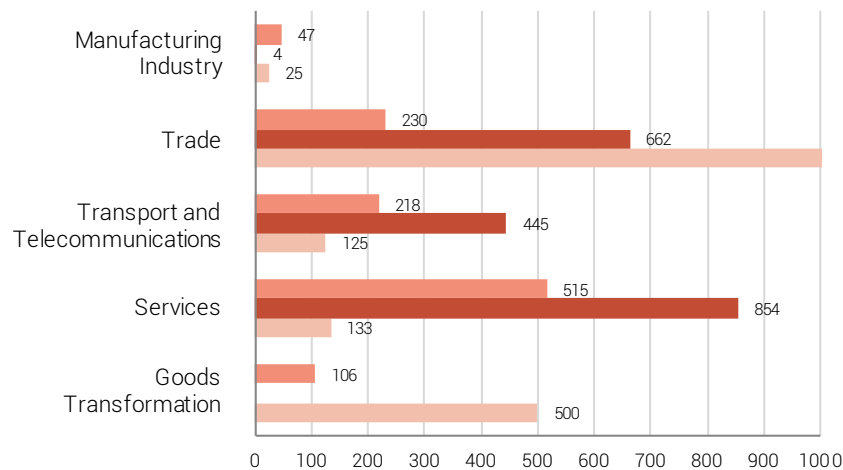
New companies must register with the Mercantile Register and the National Tax Registry and obtain operating licenses to complete the incorporation process.

In Honduras, there is freedom of organization and development of activities, and foreign investors have the same treatment as nationals. The Constitution of the Republic and the Law for the Promotion of Investment Protection (Decree 51/2011 of 15 July) provide the rights and guarantees of foreign investors. Among others are guaranteed:

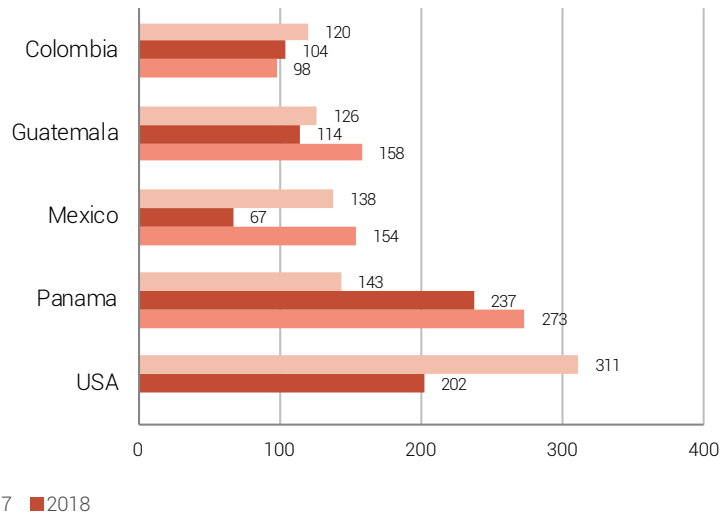
- The non-application of limitations in access to markets, to natural or juridical individuals who establish their investments in Honduras.
- The right to make transfers abroad in currency or securities, at your choice, the proceeds of your profits, capital gains, dividends, royalties and consideration for the use and transfer of technology owned by you, or the total of your investments.
- The right to access to the credit in the national financial system under the same conditions as national natural or juridical individuals.
- The free participation of foreign investment in the shareholding structure of companies, except for the requirements established in the law for the promotion of public-private alliances.
- The right to establish, without limits, subsidiaries, branches, representative offices or joint investments.

Aiming to strengthen economic growth and attract investment, the Government launched **Plan 20/20** in 2016. It is a national program that seeks to generate employment and boost economic growth through an association with the private sector. The plan focuses on four major sectors: tourism, textiles, manufacturing, business support services, investing MUSD 13,000 in 5 years.

Foreign Invest by Sector



Foreign Invest by Country



Labor Aspects



The Labor Code governs labor relations, for both nationals and foreigners. All companies established in Honduras are required to have at least a 90% of national workers on their payroll, and they have to pay them, at least, an 85% of the entire wages earned in the company.

Type of contract and work day

Oral contracts continue in Honduras, but the hiring of an employee is usually recorded in an official document. There are five types of contracts, according to their duration:

- **A contract for an indefinite period:** those professional relationships in which the start date is known, without an end date.
- **Limited time contract:** start and end dates are established for specific projects or tasks. In some cases, such contracts may be renewed from time to time.
- **A contract for specific works or services:** it does not establish a specific period of time, but it is subscribed to fulfill a certain task or role. Once the assigned work has been completed, the contract is finished.
- **Hourly contract:** contemplates the possibility of signing hourly work contracts, under the modalities of limited time or for specific work or services.
- **Collective Agreement:** this is an agreement that includes, on the one hand, the working and employment conditions agreed between an employer, a group of employers or one or several employers' organizations, and, on the other hand, of one or several workers' organizations, the workers' representatives of one or more companies or groups of workers temporarily associated (unionized).

Working days are regulated in Title IV, Chapter I of the Labor Code. The sides shall agree on the ordinary working day or the legal maximum in case of no agreement. There are differences between day shift, night shifts and mixed working hours.

- Day shift (between 5 a.m. and 7 p.m.). It may not exceed eight hours a day and forty-eight hours a week.
- Night shift (between 7 p.m. and 5 a.m. the following day). It may not exceed six hours a day or thirty-six hours a week.
- Mixed shift (includes periods for day and night). If it covers 3, or more night hours, all hours shall be considered as night hours. The mixed working day may not exceed seven hours per day or forty-two hours per week.

Social Benefits

All workers will be able to enjoy one day off for every 6 days of work, usually on Sunday. They are also entitled to paid annual leave. The number of leave days will depend on the time of continuous service in the company from each year worked. Therefore, 10 consecutive working days will be enjoyed, after one year of continuous service; 12 consecutive days for two years of continuous service; 15 consecutive days after three years and 20 consecutive days after four years.

The Government of the Republic updates the minimum wage yearly. The amount for 2019 is 472.4 USD, although it also depends on the activity group of the company and the amount of employees. Furthermore, workers are entitled to the 13th month (equivalent to one month's salary and paid in December), the 14th month (one month's salary to be received in June) and the labor reserve (equivalent to 4% of the ordinary monthly salary).

The following are also considered social benefits:

- **Prior Notice.** If any of the sides communicates the other one's desire to conclude an employment contract for an indefinite period of time, the worker has the right to one paid day off a week, in order to find another job. The length of this benefit ranges from 24 hours to two months, depending on the employee's seniority in the company.
- **Severance Assistance.** In case of unfair dismissal or external causes, the worker has the right to receive:
 - 10 days' salary, for a period of work of between 3 and 6 months
 - 20 days' salary, between 6 months and a year's work
 - 1 month's salary, from one year's work with a maximum of 25 months.

10-20
leave days

The number of leave days will depend on the time of continuous service in the company from each year worked.

The Honduran Social Security Institute (IHH) covers sickness and maternity services, disability, old age and death, as well as professional risks. In order to benefit from these coverages, both the employer and the worker must contribute a monthly fee according to the table on the next page.

Companies with five or more workers must contribute with the 1% of the total amount of wages and salaries accrued to the National Vocational Training Institute (INFOP).

Maternity leave extends from 42 days before childbirth to 42 days after it. During that time the employee will receive an allowance equivalent to 66% of the basic daily wage. The allowance paid in case of sickness, covers the fourth day for the entire duration of the incapacity, with a maximum of 26 weeks, and maybe extended for two periods of 13 weeks based on an optional decision. The daily allowance for these last periods shall be equal to 66% of the basic daily wage or 50% in the case of hospitalization.



	SYSTEM AND/OR PILLAR	EMPLOYEES	TAXPAYER	COTRIBUTION RATE	SALARY CONTRIBUTION CEILING		
					2018	2019	2020
HEALTH CARE INSURANCE SYSTEM	Health Care Insurance System	-	Employee	2,5%	8,508.54	8,933.97	9,380.67
			Employer	5%			
SOCIAL SECURITY INSURANCE SYSTEM	Social Security Insurance System / Collective Capitalization Pillar (IVM)	Corporations with more than 10 employees	Employee	2,5%	8,882.30	9,326.42	9,792.74
			Employer	5%			
		Corporations with 10 employees or less	Employee	1,3%	8,870.63	9,314.16	9,779.86
			Employer	2,3%			
	Social Security Insurance System / Complementary Pillar of Individual Accounts (RAP)	Corporations with more than 10 employees	Employee	1,5%	8,882.30	9,326.42	9,792.74
			Employer	1,5%			
		Corporations with 10 employees or less	Employee	0,3%	8,870.63	9,314.16	9,779.86
			Employer	0,3%			
LABOR COVERAGE INSURANCE SYSTEM	TAXPAYER	2016	2017	2018	2019	2020	
	Employer	0,66%	1,32%	1,98%	2,64%	3,30%	

Job Termination

Articles 111 and 112 of the Labor Code cover several cases of termination of the employment relationship. In Honduras, the most commons are:

- Renunciation of the employee, who must obey with the period of notice established in the Labor Code, with the right to receive the payment of his acquired labor rights and the payment of the labor reserve in compliance with the requirements of the Social Protection Framework Law.
- Termination by the company. It will pay the employee all social benefits and acquired employment rights.
- Mutual agreement between both parties.



Foreign Employees

Companies may only have 10% of foreign employees on the payroll, except in the cases specified in Article 11 of the Labor Code. It is necessary to fulfill a series of requirements established by the Government through the National Institute of Migration to work in Honduras.

Therefore, the application must be accompanied by the employment contract issued by the institution in which the foreigner will provide professional services to obtain the special permit to stay in the category of foreigners hired by state institutions, both centralized and decentralized. Besides, the institution must certify that it is responsible for the subsistence of the foreign worker during his/her stay in the country, guarantees his/her departure after the expiration of the contract and undertakes to notify the general management of the end of the employment relationship at the end of the contractual agreement.



Fiscal Aspects

Honduras has promoted a favorable investment atmosphere for both nationals and foreigners with more attractive conditions and regimes. Besides creating tax-free areas, such as Temporary Import Regimes (RIT) and Free Zones (ZOLI), the country has implemented some tax reductions.

Since 2017, the Honduran tax system is governed by the principle of territorial income, whereby only income generated within the national territory is taxed. Among the main tax obligations, there are state obligations - both direct and indirect - and municipal ones.

		DESCRIPTION	SUBMIT DEADLINE	DECLARATION MODE
DIRECT STATE TAXES	INCOME TAX	It is an annual tax imposed on income from capital and/or work. The rate applicable to legal entities is 25%. For natural individuals there is a scale according to income.	The return must be filed between January 1 st and April 30 th (or later business if disqualified).	Through the DET LIVE application, using Form SAR-357 Determinative Declaration (ISR-ATN-AS. V3).
	SOLIDARY CONTRIBUTION	It is an ISR surcharge of 5%, which is applied on the excess of taxable net income over 40,645 USD/L 1,000,000		
	NET ASSETS	It is an Income Tax on the total net assets of companies. A 1% tax is imposed on the net value exceeding 121,936 USD/L 3,000,000		
	CAPITAL INCOME STATEMENT	-	-	Through the DET LIVE application, using the Form SAR-297 Statement of Capital Income.
INDIRECT STATE TAXES	SALES TAX	It imposes 15% on consumer goods or services that are not included in the list of tax exemptions and 18% on the import and sale of alcohol and tobacco.	Occurs within the first 10 days of each month or the following month if unfit.	Through the DET LIVE application, using Form SAR-227 Determinative Declaration (ISV)
	WITHHOLDING STATEMENT	This tax is imposed at 12.5% on income obtained from professional fees, per diems, commissions, gratuities, bonuses and remunerations for technical services.		Through the application DET LIVE, using the Form SAR-237 Selective Affidavit Specific and to the Consumption
	WITHHOLDING ADVANCE ISR	The 1% withholding applies to all taxpayers with incomes greater than US\$ 609,682/L15,000,000.		
	REMUNERATION AND WAGE WITHHOLDING	A rate between 15% and 25% is applied to income over 6,446 USD/ L158,995.06		
	DIVIDEND OR PROFIT RETENTION	A rate of 10% is applied to the income of individuals obtained through dividends or any other form of reserve profit sharing.		
LOCAL TAX	IMPUESTO PERSONAL	It is a tax between 1.5% and 5.25% imposed on the annual income received by natural individuals within each municipality, whether they are or not residents.	The declaration and payment are made during the first three months of the year on the basis of income from the previous year.	Excel document provided by the municipality of the Declaration of the Neighborhood Tax.
	IMPUESTO SOBRE INDUSTRIA, COMERCIO Y SERVICIO	This tax is imposed on individuals for their commercial, industrial, mining, agricultural, public and private service provision, electronic communication, urban development construction, casinos, savings and loan banks, insurance companies and any other lucrative activity.	Within the first 10 days of each month.	Through the Declaration Form of the Tax on Industry, Commerce and Services.
	IMPUESTO SOBRE BIENES INMUEBLES	Taxes the value of real estate assets	A rate of L3.50 per thousand is applied for urban goods and L2.50 for rural goods.	Online payment

Some taxes may constitute a credit against others, specifically:

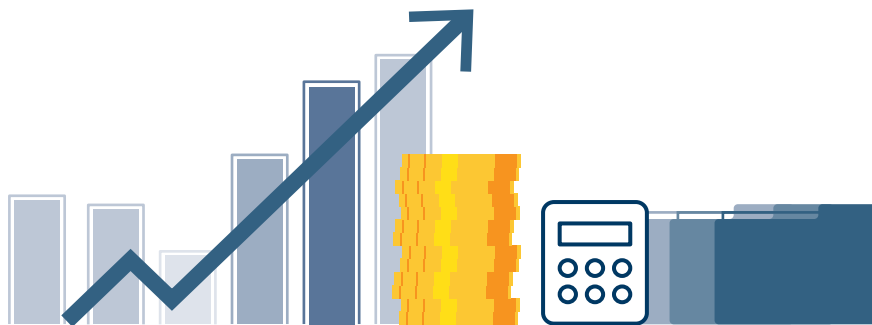
- Payments on Account create a credit against Income Tax (ISR), Solidarity Contribution and Net Assets (AN).
- The ISV paid (tax credit) may create a credit against Income Tax.

The request for refund of a credit must be made to the SAR office. It will be indispensable to present a document at the department of Notifications, and to pay the Official Receipt of Payment (ROP) for the amount of 8USD/L200. After that, the SAR will analyze each case and may request additional documentation.

Transfer Pricing

Since 2014, the Transfer Pricing Regulation Law has governed commercial and financial transactions between related sides, according to the principle of free or full competition.

In Honduras, income taxpayers related parties that carry out commercial or financial operations among themselves must establish their income, costs, and deductions based on the prices and profit margins that would have been applied if such operations had been carried out between independent sides.



Special Regimes

There are several tax-benefit regimes in Honduras. The Free Zones and the Temporary Import Regime, as well as the Call Center and Biofuel production sectors are the most important ones.

Free Zones (ZOLI)

The Law on Free Zones aims to favor commercial and industrial companies, national or foreign, involved in export or complementary activities that are located in free zone status territories. These ZOLI are found within the national territory, under fiscal surveillance and, without the resident population. They are managed by a designated institution.

The Ministry of Economic Development is responsible for granting permission to operate in any of the country's free zones. It is also mandatory to pay an annual fee for the freedom to operate.

There are many tax benefits for companies established in free zones. They are absolved from the payment of tariff rates, charges, surcharges, internal taxes, consumption taxes and, other taxes and levies on goods introduced into the Zone, directly or indirectly related to import and export customs operations. They are also exempt from income tax and municipal taxes.

Temporary Import Regime (RIT)

The objective of the Temporary Import Regime is to increase exports through incentives to companies not enjoying other benefits considered in Honduran laws. The main advantages of this regime are:

- Exemption from payment of customs duties, general sales tax and other taxes on the import of raw materials and products, machinery and production equipment and the models and instructions necessary to adjust the production of goods and services.
- Exoneration of the payment of the Income Tax for the profits coming from the export to non-Central American countries during the first 10 years. To be eligible for this scheme it is necessary to apply to the Directorate General of Productive Services of the Secretariat of Industry and Commerce.

Law for the Promotion of Call Centers and Outsourcing of Business Services

The Call Centers or establishments that provide technical assistance, logistics, information and sales, easing relations between merchants and customers or users located anywhere in the national or international territory, and business services outsourcing centers (BPO) enjoy the following tax advantages:

- Exemption from payment of customs duties, charges, surcharges, consular fees, internal and consumption taxes and other taxes levied on the imports of equipment, tools, spare parts, accessories, office furniture and equipment, and other goods that have a direct or indirect relationship with the operations and the execution of the incentivized activity.
- Exemption from Income Tax of the income obtained from the incentivized activity.

Law for the Production and Consumption of Biofuels

Through the Biofuel Production and Consumption Law, companies in this sector enjoy exemptions in the payment of Income Tax, Net Asset Tax, and other state taxes and fees for 12 years. Also exemptions on customs duties on goods meant for construction and maintenance and operation of the production plant.



Accounting Aspects



Honduran accounting standards are ruled by International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs). The National Commission of Banks and Insurance (CNBS) is the institution in charge of regulating the financial and accounting statements of companies in Honduras under the Law of the National Commission of Banks and Insurance. 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.

The accounting books required by companies are:

- General ledger
- Diary
- Sales Ledger
- Purchase Ledger
- Trial balance
- Financial Statements

These books must be submitted in January of the following fiscal year. They must be bound, foliated and authorized by the competent territorial authority.

Audit Obligations

There are entities in Honduras that are required to present audited financial statements. For example, companies operating in the private financial sector, listed companies, government entities and subsidiaries.

Consolidation Obligations

Those companies that have combined investments, associated companies or subsidiaries must prepare consolidated financial statements.



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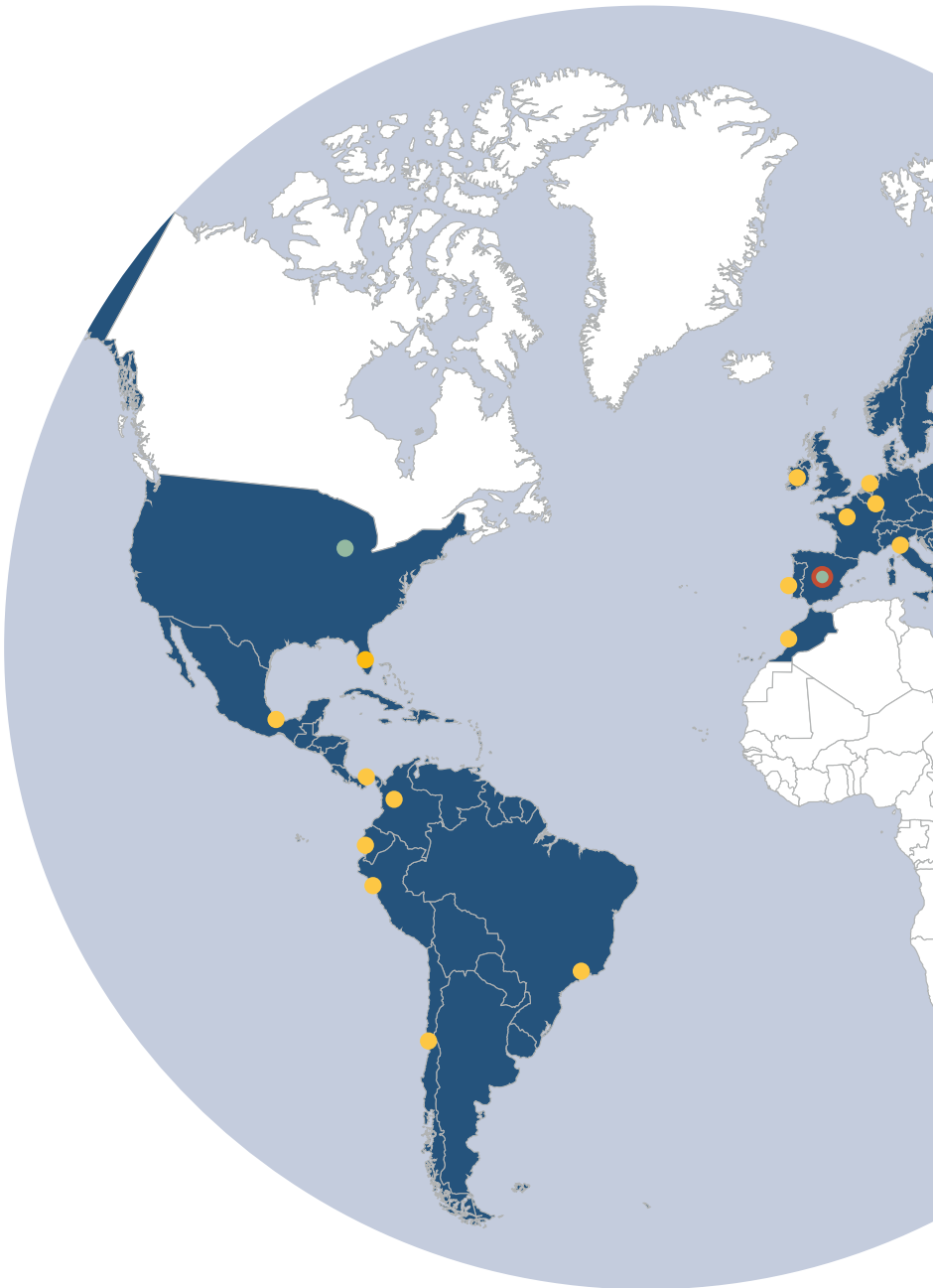
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Fully operating
subsidiaries



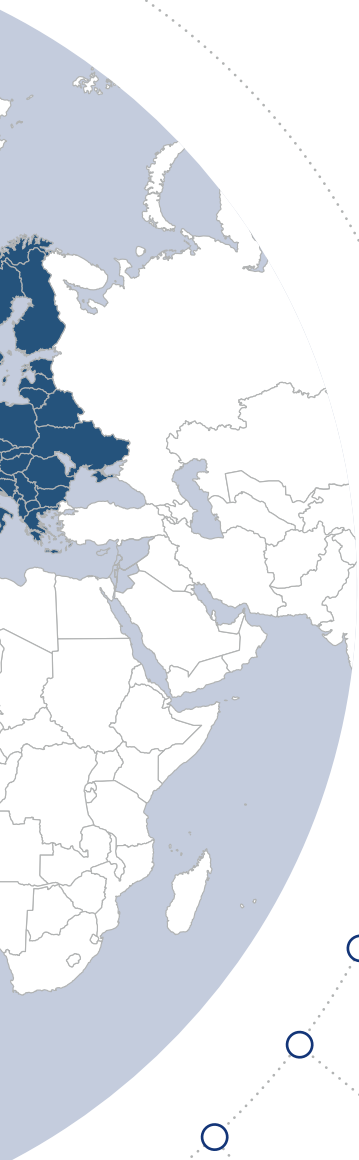
+50

Countries currently
being served



Services

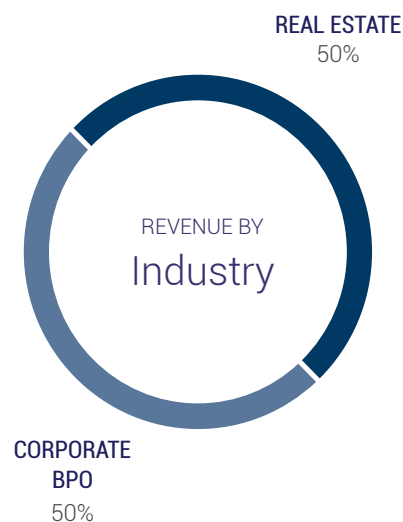
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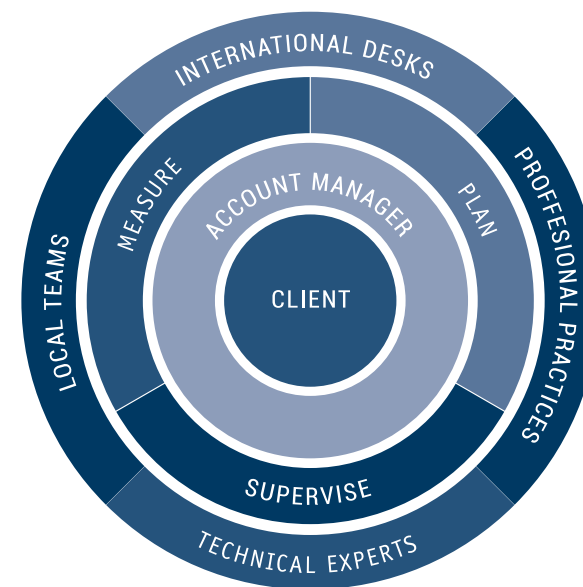
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25M USD

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+1.000

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