

DOING BUSINESS

IN HONDURAS



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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Honduras has been provided by the office of UHY representatives:

UHY AUDITORES & CONSULTORES, S.A.

TEGUCIGALPA (International liaison office)
Tres Caminos 5ta calle, No. 354, M.D.C,
Tegucigalpa, Honduras

SAN PEDRO SULA
1 y 2 Calles, 1 y 2 Avenidas, Barrio el Centro,
San Pedro Sula, Honduras

Phone +504 2239 1305
Website www.uhy-hn.com
Email gerencia@uhy-hn.com

You are welcome to contact [Omar Pérez \(operez@uhy-hn.com\)](mailto:operez@uhy-hn.com) for any inquiries you may have.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at November 2017.

We look forward to helping you do business in Honduras.

2 – BUSINESS ENVIRONMENT

DEMOGRAPHY

Honduras was home to several important Mesoamerican cultures, most notably the Maya, prior to being conquered by the Spanish the sixteenth century. The Spanish introduced Roman Catholicism and the now predominant Spanish language, along with numerous customs that have blended with the indigenous culture.

Once part of Spain's vast empire in the New World, Honduras became an independent nation in 1821. After two and a half decades of mostly military rule, a freely elected civilian government came to power in 1982. During the 1980s, Honduras proved a haven for anti-Sandinista contras fighting the Marxist Nicaraguan Government and an ally to Salvadoran Government forces fighting leftist guerrillas. The country was devastated by Hurricane Mitch in 1998, which killed about 5,600 people and caused approximately \$2 billion in damage. Since then, the economy has slowly rebounded.

Honduras' population growth rate has slowed since the 1990s, but it remains high at nearly 2% annually because the birth rate averages approximately three children per woman and more among rural, indigenous, and poor women. Consequently, Honduras' young adult population - ages 15 to 29 - is projected to continue growing rapidly for the next three decades and then stabilize or slowly shrink.

TABLE 1
Population statistics

POPULATION	9,038,741 MILLION INHABITANTS (JULY 2016 EST.)
Growth Rate	3.34%
Male population	4,551,186
Female population	4,487,555
Rural population	44.1%
Urban population	55.9%

The data in the table below (from the 'CIA World Fact Book) gives a segmentation of the Honduran population by age group:

TABLE 2
2016 population estimate by age group

AGE	PROPORTION
0–14 years	32.95%
15–24 years	21%
25–54 years	36.63%

55-64	5.13%
65 years and over	4.29%

The median age in 2016 was estimated to be as follows:

- Both sexes – 23 years
- Male – 22.6 years
- Female – 23.3 years

Other population indicators are as follows:

- Birth rate – 22.4 births / 1,000 population (2016 est.)
- Death rate – 5.3 deaths / 1,000 population (2016 est.)
- Net migration rate – -1.1 migrant(s)/1,000 population (2016 est.)
- Rate of urbanisation – 2.85% annual rate of change (2016 est.)

CULTURE/ETHNICITY

- Nationality – Honduran

Ethnic groups – mestizo (mixed Amerindian and European) 90%, Amerindian 7%, black 2%, white 1%

- Religions – Roman Catholic, Protestant.
- Languages – Spanish (official), Amerindian dialects

GEOGRAPHY

Central America, bordering the Caribbean Sea, between Guatemala and Nicaragua and bordering the Gulf of Fonseca (North Pacific Ocean), between El Salvador and Nicaragua

- Border countries – Guatemala 244km, El Salvador 391km, Nicaragua 940km
 - Land 111,890 square km
 - Water 200 square km
- Climate – subtropical in lowlands, temperate in mountains
- Terrain – mostly mountains in interior, narrow coastal plains
- Administrative Divisions – 18 departments (departamentos, singular - departamento); Atlantida, Choluteca, Colon, Comayagua, Copan, Cortes, El Paraiso, Francisco Morazan, Gracias a Dios, Intibuca, Islas de la Bahia, La Paz, Lempira, Ocotepeque, Olancho, Santa Barbara, Valle, Yoro
- Natural Resources: timber, gold, silver, copper, lead, zinc, iron ore, antimony, coal, fish, hydropower

TRANSPORTATION AND PORTS

- Airports – 13 (paved runways)
- Railways – 699 km, narrow gauge: 164 km 1.067-m gauge (2014)
- Roadways – 14,742 km
- Waterways – 465km (most navigable by small craft) (2012)
- Ports and harbours – La Ceiba, Puerto Cortes, San Lorenzo, Tela

The best mode of transportation in Honduras varies depending on what area of the country you are visiting. On much of the mainland, buses are the cheapest and most convenient form of transportation. Domestic airlines are a quicker alternative. Along the Mosquito Coast, however, boats and canoes through the waterways are the only feasible means of transportation. Daily ferries run from the mainland to the Bay Islands. Once on the islands, you may want to use a unique type of transportation in Honduras: the water taxi.

Honduras car rental is available in most major cities and on Roatan Island. Many American companies have rental places at Tegucigalpa and San Pedro Sula airports. Honduras car rental costs are lower if you rent from a company outside the airport (and away from airport tax zones). Costs for Honduras car rental generally range from about \$30 to \$60 a day, depending on the car size and insurance costs. A U.S. or European drivers license is valid in Honduras for up to 30 days.

Honduras has a fairly modern road system between major towns. Some of the backcountry roads leave a bit to be desired however. Gas is about twice the price or more than in the United States.

The Honduras bus system is extensive and inexpensive. Buses run throughout the major cities and make regular journeys between towns. This is the most logical means of transportation in Honduras for most travelers. If you are traveling a long distance, purchasing a slightly more expensive Honduras bus ticket on a direct or executive service is well worth cost for comfort and travel times. A direct Honduras bus ride from San Pedro Sula to Tegucigalpa costs about \$7 and takes four to five hours.

Domestic flights in Honduras are also relatively inexpensive. This is the best way to get to the Mosquito Coast or to Guanaja Island. Flights from San Pedro Sula and La Ceiba run regularly to Roatan, Utila, and Guanaja. Travelers to the Bay Islands may also want to consider the ferry from La Ceiba.

Some parts of the Honduras coastline and the Bay Islands are inaccessible by car or bus. (There are less than ten cars on the whole of Guanaja Island, for example.) A water taxi is the only means of transportation between Roatan and the other Bay Islands. Taking a water taxi Honduras to the beaches on the north coast of Roatan Island makes a great thing to do on a vacation here. The water taxi Honduras is also the only way to navigate the rivers of Rio Platano Biosphere Reserve and the Mosquito Coast.

Transportation in Honduras is generally fairly inexpensive, whether you travel by air, land, or sea.

ECONOMY

Honduras, the second poorest country in Central America, suffers from extraordinarily unequal distribution of income, as well as high underemployment. While historically dependent on the export of bananas and coffee, Honduras has diversified its export base to include apparel and automobile wire harnessing.

Honduras's economy depends heavily on US trade and remittances. The US-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) came into force in 2006 and has helped foster foreign direct investment, but physical and political insecurity, as

well as crime and perceptions of corruption, may deter potential investors; about 15% of foreign direct investment is from US firms.

The economy registered modest economic growth of 2.6%-4.0% from 2010 to 2015, insufficient to improve living standards for the nearly 65% of the population in poverty. In 2015, Honduras faced rising public debt but its economy has performed better than expected due to low oil prices and improved investor confidence. The IMF continues to monitor the three-year stand-by arrangement signed in December 2014, aimed at easing Honduras's poor fiscal position.

- Official Currency – Lempira (HNL)
- Currencies – Lempira (HNL)
- Fiscal Year – calendar year (1 January – 31 December)
- Exchange rates – Lempira (HNL) per US dollar: 22.995 (2016) 22.995 (2015) 22.098 (2014) 21.137 (2013) 19.64 (2012)
- GDP (purchasing power parity): USD 43.17 billion (2016 est.)
- GDP (official exchange rate): USD 21.37 billion (2016 est.)
- GDP - real growth rate 3.6% (2016 est.)
- GDP - per capita (PPP): USD 5,300 (2015 est.)
- GDP - composition by sector: agriculture 13.5%, industry 28.2%, services 58.3% (2016 est.)

*For more information visit:

- www.bch.hn (exchange rates)
- www.cia.gov
- www.investinhonduras.hn

GOVERNMENT

Country name:

- Conventional long form: Republic of Honduras
- Conventional short form: Honduras
- Local long form: República de Honduras
- Local short name: Honduras

Government type: democratic constitutional republic

Capital: Tegucigalpa

Geographic coordinates: 14 06 N, 87 13 W

Time difference: UTC-6 (1 hour behind Washington, DC during Standard Time)

Administrative Divisions: 18 departments (departamentos, singular - departamento); Atlantida, Choluteca, Colon, Comayagua, Copan, Cortes, El Paraiso, Francisco Morazan, Gracias a Dios, Intibuca, Islas de la Bahia, La Paz, Lempira, Ocotepeque, Olancho, Santa Barbara, Valle, Yoro

Independence and National holiday: 15 September 1821 (from Spain)

Constitution: several previous; latest approved 11 January 1982, effective 20 January 1982; amended many times, last in 2012; note - in 2015, the Honduran Supreme Court opened the door to presidential reelection by striking down several constitutional articles prohibiting reelection

Legal System: civil law system

BUSINESS PROTOCOL IN HONDURAS

GREETINGS

Men and women speak directly to each other, and handshakes are appropriate when greeting both, but wait until a woman extends her hand before offering to shake hands. Use a title such as doctor or professor, if appropriate. You should even greet lawyers with their title, which in Spanish is *abogado*. Persons without professional titles should be called *senor*, *senora* or *senorita*. Use business cards during introductions, with the Spanish side of your card facing the other person. Carefully review cards handed to you as a sign of respect.

MEETINGS

Show up on time for meetings, even though your hosts may keep you waiting. Meetings tend to include informal conversation and usually don't follow strict agendas. Expect meetings to go on for longer than planned too, with an overall feel of a social activity rather than a business meeting, according to the U.S. Department of Commerce.

SALES

The strongest personalities and business people with the highest authority tend to take over the conversation during meetings and will be the ones to make final decisions in the sales process. Hondurans expect negotiations to remain friendly, however, and don't appreciate a hard sell or pressure tactics. They place a very high value on relationship building and avoid confrontations and conflicts. While negotiations may conclude with a handshake, a formal written contract is necessary as well.

ATTIRE

Like their U.S. counterparts, businessmen and women in Honduras dress in conservative business attire for meetings, consisting of a dark suit and tie for men and a conservative skirt or slacks with a blouse for women. American business people should avoid wearing expensive jewelry, however, because security's a major issue in Latin American countries. Street crime is rampant in urban areas and includes pickpocketing and armed robberies.

3 – FOREIGN INVESTMENT

LEGAL FRAMEWORK FOR FOREIGN INVESTMENT OVERVIEW

The 2011 Investment Law requires that all local and foreign direct investment be registered with the Investment Office in the Secretariat of Industry and Commerce. Upon registration, an investor is issued investment certificates, which provide investment protection under the law and guarantee investors' international arbitration rights, further provided for under CAFTA-DR. CAFTA-DR establishes a dispute settlement mechanism, as detailed in the Investment Chapter. An investor who believes the government has not honored a substantive obligation under CAFTA-DR may request binding international arbitration. Proceedings and documents submitted to substantiate the claim are generally open to the public. The 2011 Investment Law does not limit foreign ownership of businesses, except for those specifically reserved for Honduran investors, e.g., small firms with capital less than 150,000 lempiras (HNL), which is about USD 7000. For all investments, at least 90 percent of a company's labor force must be Honduran, and at least 85 percent of the payroll must be paid to Hondurans. Majority ownership by Honduran citizens is required for companies that wish to take advantage of the Agrarian Reform Law, engage in commercial fishing, forestry, or local transportation activities, serve as representatives, agents, or distributors for foreign companies, or operate radio and television stations.

Additionally, government authorization is required for both foreign and domestic investments in the following areas:

- Basic health services,
- Telecommunications,
- Generation, transmission, and distribution of electricity,
- Air transport,
- Fishing, hunting and aquaculture,
- Exploitation of forestry resources,
- Agricultural and agro-industrial activities exceeding land tenancy limits established by the Agricultural Modernization Law of 1992 and the Land Reform Law of 1974,
 - Insurance and financial services,
 - Private education services, and
- Investigation, exploration, and exploitation of mines, quarries, petroleum and related substances.

LOCAL BUSINESS STRUCTURES

According to Honduran commercial legislation, persons or entities that systematically conduct their business in Honduras must establish themselves as merchants. There are basically two ways to become a merchant in Honduras. The First is to open a local branch of a foreign entity. The second is to become a "regular merchant" under Honduran Law.

BRANCHES FOR FOREIGN ENTITIES

Foreign entities wishing to open a branch are allowed to do so under the “Ley para la promoción y protección de las inversiones” (Promotion and Protection of Investments Law), Decree 51-2011. In order to open a branch, article 55 of this law states the following: “Commercial corporations incorporated abroad will be able to join in Honduras by a simple accreditation in the Mercantile Registry of the jurisdiction which proves existence in the country of origin, which may be done by apostilled copy of the certificate of registration of the company, an assembly agreement naming a permanent resident representative in Honduras; and when appropriate, the statutes or articles of incorporation of the company. Registration must proceed immediately without any additional authorization from any entity of the Government. These documents must be duly translated into Spanish.”

REGULAR MERCHANT STRUCTURES

The Individual Merchant.

The simplest structure for conducting business in Honduras is the individual merchant. This structure is limited to persons wanting to systematically dedicate themselves to commerce. The process to acquire this status is quite simple. The person wanting to adopt this structure must go before a Notary Public and sign an individual merchant’s declaration. Publications must be made in local newspapers and the declaration must be registered in the Commercial Registry. The biggest problem with becoming an individual merchant is the fact that the person declaring him or herself a merchant is personally liable for all the obligations incurred by the business. The structure does not separate the person’s personal assets from those of the business; it simply makes the individual a merchant. This structure is not generally advisable for conducting anything different from very small operations. By way of example, independent taxi cab drivers are usually individual merchants.

ENTITIES

Collective Society or Entity.

The collective society is formed by a group of investors who decide to form an entity while remaining jointly and severally liable, on a personal level, for the entity’s dealings. The partner’s names must be mentioned in the entity’s name. Ownership in a collective society cannot be transferred without the approval of all the partners and requires the amendment of the articles of incorporation. The articles of incorporation cannot be amended without the approval of all partners as well. The entity is administered by all the partners by default. An administrator may be appointed. A comptroller may also be appointed but is not required.

Comandita Simple Society or Entity.

The “comandita” simple entity is very similar to the collective society save for the fact that there are two types of shareholders. The “comanditado” partners are jointly and severally liable, on a personal level, for the entity’s dealings. On the other hand, the “comanditario” partners are only liable for the entity’s dealings up to the value of their shares in the entity. The “comanditario” partners may not be administrators in the entity and are simply considered investors.

Comandita Society or Entity with Stock.

The “comandita” with stock is very similar to the “comandita” simple save for the fact that the shares in the entity are documented in stock certificates. These stock certificates are negotiable instruments. In the “comandita” with stock, stockholder approval for transfers is only required for “comanditado” stock.

Sociedad de Responsabilidad Limitada.

The “sociedad de responsabilidad limitada”, or “SdeRL” for short, is equivalent to the Limited Liability Company in other Jurisdictions.. Incorporating an “SdeRL” requires a minimum of two persons or entities. There is a maximum of 25 shareholders. The Commercial Code, however allows for the co-ownership of participation or interest. The minimum capital required to incorporate is approximately US \$ 250.00. In the SdeRL owners are only liable, up to the value of their interest, for the entity’s dealings. The corporate veil can only be pierced in the event that it can be proven that the shareholders have used the entity to defraud other parties. One of the advantages of an SdeRL is simple administrative structure. The entity is run by the shareholders through the assembly of shareholders. Day to day management is handled by one or more managers. The appointment of a comptroller is optional for the SdeRL. In order to incorporate the entity, the shareholders can either come to Honduras and sign the necessary documentation or send a power of attorney issued to our members. As mentioned above, please note that all documents issued in other jurisdictions must be either legalized by a Honduran Consul or have an Apostille. Incorporation is completed in approximately 1 week. Generally, there are no limitations on the nationality of shareholders and managers.

The advantages to an SdeRL are its simple administrative structure and low initial capital requirement. There are some disadvantages to consider though. The main disadvantage is the transfer of ownership in the entity. Interests in an SdeRL are not negotiable instruments. Therefore, the sale or transfer of participation in an SdeRL requires the approval of the Assembly of Shareholders, the amendment of the articles of incorporation and registration of a contract of sale. The process takes approximately 2 weeks.

SOCIEDAD ANÓNIMA

The “sociedad anónima”, or “SA” for short, is a more complex capital entity. Incorporating an SA also requires a minimum of two persons or entities. The SA does not have limit regarding the number of stockholders. The minimum capital required to incorporate is approximately US \$ 1,250.00. As in the SdeRL, stockholders are only liable, up to the value of their stock, for the entity’s dealings. Also as is the case with the SdeRL, the corporate veil can only be pierced in the event that it can be proven that the stockholders have used the entity to defraud other parties. The SA has a more complex administrative structure. The entity’s top authority is the stockholders through the assembly of stockholders. The entity is managed by a board of directors. Day to day management is handled by one or more managers who generally answer to the board of directors. The appointment of a comptroller is required for the SA. The comptroller is appointed by the stockholders and is in charge of supervising the board or director’s actions and later reporting to the stockholder assembly.

As is the case with de SdeRL, in order to incorporate the entity, the stockholders can either come to Honduras and sign the necessary documentation or send a power of attorney

issued to our members. As mentioned before, please note that all documents issued in other jurisdictions must be either legalized by a Honduran Consul or have an Apostille. Incorporation of an SA is also completed in approximately 1 week. Generally, there are no limitations on the nationality of stockholders, members of the board of directors or managers. The disadvantages to an SA are its more complex administrative structure and higher initial capital requirement. The main advantage is the ease related to the transfer of ownership in the entity. Stock certificates in an SA are negotiable instruments. Therefore, the sale or transfer of stock requires the endorsement and delivery of the share certificate and, in some cases, registration in the entity's stockholder registry book. The process generally takes hours to complete.

Some recent reforms regarding the minimum capital or the ways to dissolve or publish the incorporation of these entities has been passed.

Single owned entities (sociedades unipersonales)

Recently single owned entities (sociedades unipersonales) have been approved by the law. The reform was passed on 2014 and tries to comply with international business practices in order to simplify the way business is handled in Honduras. The ruling for such law was recently published and until now the commercial registry is preparing the drafts of the formats for the registration of such entities. In general terms, such organizations are 100% owned by a sole member and don't require a minimum capital. No much is to be said about this, since the reform is recent and until now there hasn't been any incorporation of single owned entities and the commercial registry is pending to issue regulations on this way.

Joint ventures are allowed in the country as private agreements within parties to develop a specific business. There is no need of a special registration of ventures in the registry, but it is needed at the tax authority.

4 – SETTING UP A BUSINESS

No.	Procedure	Time to complete	Associated costs
1	Pay the initial capital and obtain the certificate of the deposit at a local bank	1 day	Lps. 100
2	Establish the company before a notary public, who will draw up the articles of incorporation	2 days	Notary fees of 5% until Lps. 25,000 and 3% over Lps. 25,000 of the capital
3	Publish the registration notice in “La Gaceta”, the official journal or an ordinary newspaper	1 day	US\$35 for one advertisement in “La Gaceta”; \$15 in a newspaper
4	File the articles of incorporation with the Mercantile Registry at the Chamber of Commerce	2 days	See procedure details
5	Apply for the tax identification code (Registro Tributario Nacional, RTN)	1 days	No charge
6	Acquire accounting and minutes books	1 day	US\$ 45 (about 0.5 US\$ per page)
7	Register with local and national chambers of commerce	1 day	No charge
8	Apply for an operational permit (Permiso de Operación) from the municipal authorities	1 day	Lps. 1,250
9	Register for Sales tax	2 days	No charge
10	Register at Social Security Institute (Instituto Hondureño de	3 days (simultaneous with	No charge

	Seguridad Social, IHSS)	previous procedure)	
11	Register at the Professional Training Institute (Instituto Nacional de Formación Profesional, INFOP)	1 day (simultaneous with previous procedure)	No charge
12	Register at Social Fund for Housing (Régimen de Aportación, (RAP) al Fondo Social de la Vivienda (FOSOVI))	1 day (simultaneous with previous procedure)	No charge

5 – LABOUR

LABOUR & EMPLOYMENT – COMMON ISSUES

LABOR FRAMEWORK

Honduran Labor legislation should be seriously considered before doing business in Honduras. Our Labor Code, which dates back to 1959, is extremely protective of the employee. Special attention should be given to article 3 of the Code. According to Article 3, all acts or stipulations which imply waiver, diminution or curtailment of worker's rights are null and void. When disputes arise, the employee's statements are assumed to be true and the employer has to prove otherwise bearing the burden of proof. All employees must have a written contract. Said contract must be drafted in Spanish and in accordance with current labor laws according to Articles 21 and 37 of the Labor Code. The existence of said contract is the employer's responsibility. Therefore the lack of a written contract is considered the employer's fault. All statements made by the employee are considered to be true. The employer must prove otherwise. Employers must register their employees with the Ministry of Labor.

All companies which employ more than 5 employees must have an Internal Work Regulations. This manual must be approved by the Ministry of Labor according Article 88 of the Labor Code. Companies employing more than 10 employees must have a Hygiene and Security Manual this manual must also be approved the Ministry of Labor according to Article 397 of the Labor Code. Minors under the age of 18 may not work unless they have a special authorization to do so according to Article 126. seq. of the Labor Code. The Honduran Labor Code imposes minimum of Honduran Personnel (90%) that must be hired by every Honduran Company under Article 11 of the Labor Code. All agreements, which affect employee rights must be executed before an Inspector from the Ministry of Labor in order to be valid. Under Article 16 of the Labor Code all communications and instructions directed to employees must be in Spanish. Article 12 of the Labor Code forbids any kind of discrimination in the workplace.

Among the most important aspects, we can mention the following:

Payment and compensation - Minimum wage is periodically set by the government. The set minimum wage is determined by several factors such as field of work and the place where company operates based on Article 383 of the Labor Code. Honduran employees must be paid a 13th month's bonus, in December of every year, and a 14th month's bonus, in July of every year. These payments are equal to one month's pay and are paid proportionally to time worked during the first year of service.

Employers are responsible for withholding income and municipal tax from their employees. Employers must register their employees with the Instituto Hondureño de Seguridad Social (Social Security), Instituto de Formación Profesional (Institute for Professional Education) and Regimen de Aportaciones Privadas/Fondo Social de la Vivienda (Social Home Fund). Employers are responsible for withholding employee's contribution to these entities as well as paying a percentage of salaries paid on the employee's behalf.

Vacations, holidays and rest periods - Pregnant women are granted special rest periods and time off before and after child birth under Article 135 of the Labor Code. Pregnant women cannot be fired before undergoing a special process before the Ministry of Labor. The Labor Code imposes a maximum of work hours a week.

- Daytime (5:00a.m. to 7:00 p.m.) work is 8 hours a day 44 hours per week.
- Nighttime (7:00 p.m. to 5:00 a.m.) work is 6 hours a day 36 hours per week and
- Mixed Time (day and night) is 7 hours a day and 42 hours a week under Articles 321 and 322 of the Labor Code.

Minimum paid vacation time is regulated as follows:

After 1 year of service 10 working days;
 after 2 years of service 12 working days;
 after 3 years of service 15 working days; and,
 more than 4 years of service 20 working days.

Please note that vacation days are consecutive under Article 346 of the Labor Code. Vacation time cannot be compensated with money or accumulated. January 1, April 14, May 1, September 15th, October 3, 12 and 21, December 25 and Thursday, Friday and Saturday of Easter Week are Holidays.

Severance and Termination - All Honduran employees are entitled to very heavy severance pay in the event of termination of their employment without cause. This payment is equal to 1 month's pay for every year worked. Entities with less than 10 employees can cap this payment at 15 years. Entities with more than 10 employees can cap this payment at 25 years under Article 120 of the Labor Code. Entities having more than 10 employees must also consider the following provisions:

- After 15 years of service any employee may quit and be entitled to 35% of his or her accrued severance.
- After 6 months of continued service in the event of an employee's death, his or her heirs are entitled to 70% of the accrued severance.

6 – TAXATION

TAXES ON CORPORATIONS OR MERCANTILE ENTITIES

Enforcement of Tax Laws in Honduras has improved on the past years. The Tax Authority, DEI (Dirección Ejecutiva de Ingresos) has made some internal changes in order to increase tax collection and the Congress has approved new regulations in order to reduce and punish tax evasion. Companies or mercantile entities must be aware especially of the following taxes and concepts:

INCOME TAX

All entities must pay Income Tax. The rate if the income tax on corporations is currently equal to 25% of their net income. Net income is determined by the entity's gross income minus legally recognized deductions. Entities must file and pay for their taxes before April 30 of every year.

Honduran Tax laws have established a system known as "Payments made to Account". This policy results in advanced income tax payments equal to 25% of previous year's tax payment. These advanced payments are made during the months of June, September and December. These advanced tax payments are later deducted from the taxes payable before April 30th of each year.

Companies with a gross income over 10 million Lempiras that declare no income or with an income tax calculation less than 1.5% of its gross income have to pay an income tax of 1.5% over the gross income. This measure is a recently approved reform to prevent tax evasion from companies that made their Honduran branch as a cost-center with small or no income. An appeal against the Constitutional Supreme Court has been filed in order to declare this reform unconstitutional.

NET ASSET TAX

Is a kind of wealth tax only applicable for entities. The tax rate is of 1% over the assets above 3 million Lempiras. Some exceptions are applicable depending on the business status.

SALES TAX

Under Honduran Law, the sale and import of products as well as the sale of certain services must pay a Sales Tax. Sales tax is currently 15% of the price of the products or services being sold or imported. Some products have a Sales tax of 18% (ex: alcoholic beverages). The sales tax in Honduras operates as an Added Value Tax, with credit-debit tax operations.

d) Temporary Solidarity Tax Entities must pay a Temporary Solidarity Tax equal to 5% over net taxable income exceeding 1 million Lempiras.

e) Capital Gains Tax This tax acts as a normal capital gains. It applies to operations not directly related to the main activity of the company. For example, the sale of real estate when this is not the company's main activity. The tax rate is of 10% over the gain obtained. In the case of non-resident companies, a withholding 4% of the operation price is applied as a way to avoid evasion.

POPULATION SECURITY TAX

Is a withholding payment deducted by the bank and destined to Security programs. The rate is of 2 Lempiras per each 1,000 Lempiras of all bank operations. Some exemptions apply to individuals or NGO's.

WITHHOLDING TAX

Entities are responsible for Withholding Income Tax from third parties. This includes services rendered by non-residents. Services provided by foreign non-residents range from 10% to 25% depending on the service provided.

Entities must also withhold 12.5% from professional fees paid to local professionals.

Once a year all entities must file a Consolidated Withholdings Report before the tax authorities. The Consolidated withholding report is a summary of all taxes withheld to third parties for any reason.

Entities are also responsible for withholding and paying income taxes on employee income. Taxes on employee income range from 15% to 25% depending on the employee's salary.

The local tax authority classifies taxpayers into groups: large, medium or small contributor. When it comes to entities, if they meet the requirements to be considered a "Large Contributor", they must file a Client and Provider Statement. Entities must also file a form detailing information regarding their shareholders and the payment of dividends to the tax authorities.

TRANSFER PRICE RULES

Recently, a Transfer Price Law entered into force. The regulations of this Law are still pending. The general criteria of this rules are that all transaction between related parties have to be supported with documentation that show that it was made at market value; in any case, the tax to be paid must be the one calculated as if the transaction was done at market price.

REAL ESTATE TRANSFER TAX

For all sales of real estate, the seller has to pay a transfer tax of 1.5% of the value of the transaction or the cadastral value of the land which one is greater.

MUNICIPAL TAXES

All businesses must have a valid Operation's Permit issued by the corresponding Municipality. These permits must be obtained every year. Municipalities in Honduras are autonomous which means that they are free to determine the amount they charge for taxes. These amounts set for each year are published, by each municipality, in the country's official news paper La Gaceta.

Municipalities charge an Industry, Commerce and Services Municipal Tax. This tax is calculated over the previous year's earnings. The tax, which depends on the Municipality where the business operates, usually ranges from 0.30 per thousand to 0.15 per thousand of the entities gross income and must be paid once a year before April 30 of each year. In order to obtain an Operation's permit a business must pay its Industry, Commerce and Services Tax. The first year's tax payment is based on estimated earnings for the current year.

Businesses owning real estate of any kind must pay a Municipal Real Estate Tax. This tax is calculated over the "Cadastral Value" of the land owned by the entity. This tax is approximately 3.5 per thousand over the value of urban land and 2.5 per thousand over the value of rural land. Again, each Municipality determines the amount per thousand that must be paid.

Municipalities also charge a Solid Waste Management Tax. This tax corresponds to what the Municipality charges for garbage removal. The corresponding sum must be paid monthly. The amount to be paid depends on the Municipality as well as the entity's income.

Businesses must also pay a Fire Department Tax. The tax pays for the Fire Department's services.

The corresponding sum must be paid monthly. The amount to be paid depends on the Municipality and the entity's income.

An Environmental Tax must also be paid. The corresponding sum must be paid monthly. The amount to be paid depends on the Municipality and the entity's income.

Businesses are responsible for withholding the Municipal Tax on Employee Income. The tax ranges from 1.5 per thousand to 5.25 per thousand depending on employee's income and varies from each municipality.

CONTRIBUTIONS AND OTHER PAYMENTS

Under Honduran Law entities employing certain numbers of employees are responsible for withholding a percentage from employee's paychecks and paying that percentage to state entities.

Employers must also, in some cases, pay set additional sums on the behalf of said employees to these entities.

Social Security Payment. The Instituto Hondureño de Seguridad Social (IHSS) provides medical attention for its members. All entities must enroll their employees in the IHSS. Each entity must pay 7.2% of wages paid to its employees to the IHSS. Additionally, the entity must withhold 3.5% from its employee's paychecks and also pay that to the IHSS.

Social Fund for Housing. The Regimen de Aportaciones Privadas/ Fondo Social de la Vivienda (RAP/FOSOVI) provides low interest loans to its members. Entities having more than 10 employees must pay 1.5% of salaries paid to their employees to the RAP/FOSOVI.

Institute for Professional Preparation. The Instituto Nacional de Formación Profesional (INFOP) is a state operated vocational school. Entities having more than 5 employees must pay 1% of salaries paid to employees to the INFOP

TAX IN INDIVIDUALS

Individuals must also pay taxes on both the national and the municipal level. Again, taxes depend on the person's income. Generally employers are responsible for withholding taxes from their employees. Self-employed people must file their own taxes.

On a national level, individuals must pay Income Tax. The first US \$ 6,00.00 of a person's earnings is tax free. Income above said sum is taxed from 15% to 25% depending on the person's income.

Individuals are allowed to deduct up to the equivalent of US \$ 2,000.00 in medical expenses every year. Individuals have to pay Capital Gains Tax at the same rate that entities; and a Sales Tax for all the goods or services they acquire at the same rate described for entities. They also have to pay the Population Security Tax for all bank accounts of more than US \$ 6,000.00 either in savings or checks. Real estate transfer tax is also applicable for individuals. On the municipal level, individuals must pay a "neighbor tax" or Municipal Tax on the personal income in the municipality in which they reside. Individuals owning real estate must pay a Municipal Real Estate Tax, as explained above.

7 – ACCOUNTING & REPORTING

TAX YEAR

The fiscal year runs from 1 January to 31 December in each year.

ACCOUNTING STANDARDS

Honduras approved a new law for auditing and accounting principles establishing that, the general applicable principles must comply with the International Principles for Financial Information and International Auditing Principles. The Law of the Accounting and Audit Rules (Decree Number 189-2004) creates the regulatory framework for the adoption and implementation of these international principles (IFRS or IAS), in order to obtain adequate preparation, presentation, review and certification of accounting and financial information that will guarantee the transparency and comparability, thereby generating the necessary national and international confidence in this information. These rules have taken effect since January 2012.

All of the above is aimed at Honduras' adoption and proper application of the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS).

A summary of the accounting principles that may affect the drafting of financial statements in Honduras is as follows:

The financial statements should be prepared based on the Honduran Accounting Norms. The amounts and notes in the financial statements should be expressed in the local currency (Lempira). However, for financial situations and operations results, companies may have alternative registers adjusted to another currency. The financial statements should be presented annually and in a similar form as the previous period.

STATUARY AUDIT REQUIREMENTS

Only financial institutions are required to prepare audited consolidated financial statements that must be published. In addition, they are required to publish their annual financial statements and submit to the regulators a semi-annual financial statement accompanied by a review.

Audited financial statements are normally required for companies and partnerships, banks, insurance companies and retirement funds (AFPs).

BOOKS AND RECORDS

Accounting records should be kept in Spanish and Lempiras. By specific requirement of the Honduran Accounting Law, they should include three bound books of account, a General Ledger, a Daily Ledger and an inventory and balance ledger. These books must be stamped annually and records kept for at least five years.

In practice, records are kept in a variety of ways, both computerized and in hard copy. These methods meet the Honduran Accounting law formal requirements.

ACCOUNTING PROFESSION

Licenses to practice as a Certified Public Accountant (Contador Público Autorizado - CPA) are issued by the Public Accountants Board. Candidates must have obtained a degree in accounting, auditing or finance from a Honduran university.

Auditing standards The International Auditing Standards issued by the International Auditing and Assurance Standards Board are followed in Honduras.

TAX SYSTEM

The Honduran Constitution states that the National Congress is the only body empowered to levy taxes. Such taxes will be collected and administered by the Honduran Government through the tax authority (“Dirección Ejecutiva de Ingresos” or DEI).

PROFESSIONAL ACCOUNTANCY BODIES

For more information, see the following websites:

Honduran Association of Public Accountants (Spanish only)

Honduran Association of Chartered and Public Accountants (Spanish only)

CERTIFICATION AND AUDITING

Audited financial statements must be filed annually by an external auditor in the country.

8 – UHY REPRESENTATION IN HONDURAS

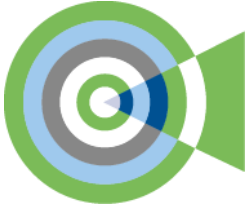
CONTACT DETAILS

UHY Auditores y Consultores, S.A.
Rosales
1 y 2 Calles, 1 y 2 Avenidas
Barrio el Centro
San Pedro Sula
Honduras
Tel: +504 2552 9981
Fax: +504 2552 9981
www.uhy-hn.com

CONTACTS

Liaison Contact: Omar Pérez

Position: Partner
Email: operez@uhy-hn.com



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