

# Legal Sources for Trade & Investment in Paraguay

## Law Nr. 523

### “Free Zone Regime”

#### REPUBLIC OF PARAGUAY

LAW No. 523

THAT AUTHORIZES AND ESTABLISHES THE FREE ZONE REGIME

THE CONGRESS OF THE PARAGUAYAN NATION PASSES WITH THE FORCE OF

## LAW

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#### CHAPTER I

##### DEFINITION AND QUALIFICATION

**Article 1.** Free Zones are parts of the national territory, located and authorized as such by the Executive Power, subject to the fiscal, customs and administrative controls that are established by this Law and its pertinent regulations.

**Article 2.** Free Zones shall be established in areas that are private property, within an enclosure in order to guarantee their separation with respect to the Customs Territory, with only one entrance and exit area.

For the purposes of this Law, the following definitions shall apply:

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Customs Territory: the land, water and air space subject to the sovereignty of the Republic of Paraguay, where the same tariff system and economic prohibitions are applied with respect to imports and exports. Free Zones do not constitute Customs Territory.

Third countries or other countries: the geographical space subject to the sovereignty of other countries.

**Article 3.** In the Free Zones, the following activities may be carried out, by themselves or separately:

(a) Commercial activities: are those in which the Users devote themselves to the introduction of goods destined for intermediation; the goods are not to undergo any kind of transformation or modification, including warehousing, selection, classification, handling, mixture of merchandise or of raw materials;

(b) Industrial activities: are those in which the Users devote themselves to manufacturing goods intended to be exported, by means of a process which consists of the transformation of raw materials and/or semi-manufactured goods of national or imported origin, including those activities that on account of their characteristics are classified as assembly activities; and

(c) Services: are those activities in which the Users devote themselves to repair and maintenance of equipment and machinery.

The services not specified in this Law that are destined for the international market may be authorized by the Executive Power, upon request by the National Free Zone Council; if this is the case, said services will receive the treatment stipulated in this Law for Free Zones.

**Article 4.** For the purposes of this Law, the following definitions shall apply:

(a) Introduction: to bring goods into the Free Zone from the Customs Territory or from third countries; and

(b) Exportation: to take out goods from the Free Zone to the Customs Territory or to third countries, and to sell semi-manufactured goods to companies located within the Zone or in other Free Zones

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located within the national territory, in order to conclude the manufacturing process or for assembly, and its subsequent forwarding to the Customs Territory.

## CHAPTER II

### THE CONCESSIONAIRE

**Article 5.** For the purposes of this Law, Concessionaire is the juridical person that, through a contract signed with the Executive Power acquires the right to open, manage and exploit a Free Zone, with the obligation to construct the needed infrastructure for the installation and operation of companies belonging to the Users of the Zone, according to the terms of said contract.

A Concessionaire shall have the right to install only his enterprise, devoted exclusively to the manufacture of goods for export, in which case the Concessionaire shall assume the obligations that correspond to the User.

**Article 6.** The concessions will be granted for the term of thirty (30) years, unless the Concessionaire prefers a shorter term, beginning on the date of the signing of the contract.

This term may be extended, in accordance with the legal conditions in force at the time of the extension, for a new term of the same length, provided that the Concessionaire has fulfilled his legal and contractual obligations.

## CHAPTER III

### THE USER

**Article 7.** For the purposes of this Law, a User of a Free Zone is a physical or juridical person that performs any of the activities mentioned in Article 3 of this Law.

A User acquires the right to operate in a Free Zone by means of a contract signed with the Concessionaire.

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**Article 8.** In no case may the Government be a Concessionaire or a User.

**Article 9.** Users must fulfill all the conditions required by law and stipulated for businessmen, and they must register with the corresponding National Registries; they must keep separate accounting records for any other activity they perform outside of the Free Zone, and they must add the expression "User of Trade Zone" to their trade name of company name.

**Article 10.** The requirements for being a User are the following:

- (a) That the interested party not be in a state of bankruptcy; and
- (b) That he not be under interdiction regarding his property.

**Article 11.** Users of the Free Zones are obliged:

- (a) To invest in their activities the capital indicated in the respective application and to carry out the activities agreed upon;
- (b) To initiate the investment within a term not longer than one (1) year following the signing of the contract with the Concessionaire.
- (c) In the case of Users of an industrial Free Zone, to commence production of the industry within a term not exceeding two (2) years after the date of the signing of the contract with the Concessionaire, except in cases when the nature of the productive activity requires a longer term, a fact that must be justified at the time the authorization is applied for;
- (d) To comply with the regulations regarding the protection and conservation of the environment, safety, elimination of pollution, conservation of green areas, and protection of Paraguayan flora and fauna, as stipulated in the legislation and according to the provisions set forth by the National Free Zone Council; and
- (e) To submit punctually his sworn statements; to carry out the necessary administrative, customs and fiscal activities, and to comply with the requirements of the laws and their regulations.

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## CHAPTER IV

### TAX REGIME IN THE FREE ZONES

**Article 12.** The Concessionaires are not subject to the exemptions and benefits that the present Law grants the Users; however, the Concessionaires may apply for the benefits of Law No.60, which "APPROVES, WITH CHANGES, DECREE-LAW No.27, DATED MARCH 31, 1990, THAT MODIFIES AND EXTENDS DECREE-LAW No.19, DATED APRIL 28, 1989, WHICH ESTABLISHES THE REGIME OF FISCAL INCENTIVES FOR THE INVESTMENT OF CAPITAL OF NATIONAL AND FOREIGN ORIGIN", DATED MARCH 26, 1991.

[The Concessionaires] will be exempt from the value added tax for the services they perform for the Users.

The sales of goods and services from the Customs Territory to the Free Zones will receive the same fiscal treatment that is granted to exports.

**Article 13.** The activities described in Article 3 of the present Law that are carried out in the Free Zones and the results obtained by the Users will be exempt from all national taxes, whether they be departmental or municipal, with the exception of the tax regime included in the present Chapter. All other activities carried out in the Free Zones will be subject to the general tax regime of the country.

Any future change in the tax legislation shall not be applied to the persons that are governed by the regime stipulated in the present Law, unless said persons opt for the new tax regime.

The tax exemption covers the establishment of companies that are Users of Free Zones and the forwarding of profits and dividends to third countries. It also includes the tax exemption for payment of royalties, commissions, fees, interests and any other payment for services, technical assistance, transfer of technology, loans and financing, rent of equipment and any other service rendered from third countries to Users of Free Zones.

**Article 14.** Users who carry out commercial, industrial or service activities and who deal exclusively with exports to third countries, shall pay a single tax called "Free Zone Tax", at the rate of 0.5 per cent (one-half per cent), its taxable base being the total value of the Users' gross income from sales to third countries.

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This tax shall be assessed and paid at the time each export clearance is formalized.

**Article 15.** The Users that carry out commercial activities and that, besides exporting to third countries, perform sales to the Customs Territory, shall pay the income tax that is in force in said territory for commercial activities, on the percentage that said sales represent within the total of their gross income, and shall deduct their expenses in the same proportion; they shall also pay "Free Zone taxes" on the gross income from exports to third countries, as stipulated in Article 14 of the present Law.

**Article 16.** The Users that carry out commercial, industrial and service activities may sell to the Customs Territory finished goods and services, paying taxes in accordance with the provisions of Article 14, provided that their gross income for said sales to the Customs Territory, within the corresponding fiscal year, does not exceed 10 per cent (ten per cent) of the total gross sales income of the enterprise.

**Article 17.** When a commercial, industrial or service enterprise, in addition to its exports to third countries, makes sales to the Customs Territory in excess of 10 per cent (ten per cent) with respect to the total gross sales income of the enterprise, within the same fiscal year, said enterprise shall pay the income tax that is in force for industrial and service activities, with a reduction of 70 per cent (70 per cent) of the applicable rate, on the percentage that the sales to the Customs Territory represent of the total of its gross income, and shall deduct its expenses in the same proportion; it shall also pay the Free Zone Tax on its gross income from exports to third countries.

**Article 18.** In all cases, commercial, industrial or service enterprises may choose between paying the Free Zone Tax or paying the income tax that is in force for commercial, industrial or service activities. Once an enterprise has opted for one of said taxes, it cannot switch to paying the other tax until after 4 (four) fiscal years.

**Article 19.** Industrial, commercial and service enterprises shall keep simplified tax records of their operations regarding the introduction and export of goods, as established by the Ministry of Finance, unless they have opted to pay the income tax for commercial, industrial and service activities that is in force; in the latter case, said enterprises shall necessarily keep the records that the taxation authority requires for such taxpayers.

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**Article 20.** Imports to the Customs Territory originating from commercial, industrial or service enterprises established in the Free Zone shall be liable to all import duties, including applicable tariffs, except in the case of industrial products that in their configuration comply with the requirements of the legislation of their origin regarding their qualification as a national product or with the requirements of international agreements that are in force.

Industrial enterprises shall be exempt from said tariffs provided that they conform with the regulations regarding origin, in accordance with international treaties in force in this country.

The Executive Power is empowered to increase tariff exemptions for those products that are considered strategically important for the nation's development.

**Article 21.** For the purposes of the present Law, there shall apply the provisions contained therein regarding sale or any other operation, be it onerous or gratuitous, that takes place on account of goods being brought into or manufactured or transformed or assembled or repaired in the Free Zone that are shipped out of the Free Zone or are alienated, whether onerously or gratuitously, to third parties within the Free Zone, including the use or personal consumption of goods belonging to the company by the owner, his partners and directors of said company.

**Article 22.** For all fiscal, customs and administrative purposes, exports of all kinds of goods and services from the Customs Territory to the Free Zone shall be effected as if they were exports to third countries.

**Article 23.** The introduction of goods from the Free Zones, be they from third countries or from the Customs Territory, will be exempt from all taxes for introduction of goods, including national, departmental and municipal taxes, except for taxes on services actually performed.

**Article 24.** The export or the re-export of goods and services from the Free Zones to third countries, or to a Free Zone itself or to other Free Zones or to the Customs Territory, shall be exempt from all national, departmental or municipal taxes.

**Article 25.** The value of export goods shall be the value that is determined at the customs house, in accordance with legislation applicable to foreign trade operations.

**Article 26.** The National Department of Navigation and Ports shall receive payment for the services actually performed by it, regarding all goods transported to or from Free Zones; fees may not

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exceed those collected at the Port of Asunción. The services that are not actually performed are to be exempt from payment of fees or tariffs.

For the purposes of establishing fees for the National Department of Navigation and Ports, the entry or exit of goods to or from the Customs Territory and their transportation from places of entry or exit to the Free Zones or vice versa, shall be considered international transit and will be priced as if they were a single operation.

The port facilities that the Concessionaire shall provide the Users will be established in the concession contract; they shall be exempt from all taxes.

**Article 27.** Capital assets brought into the Free Zone, including assets covered by a leasing contract, shall be exempt from all taxes.

**Article 28.** Capital assets brought into the Free Zones under the fiscal exemptions granted by the present Law shall not be sold, leased or otherwise transferred under any title to persons domiciled in the Customs Territory, until after the acquirers of said assets have paid the import taxes determined on the basis of the actual value of same, unless the acquirers are beneficiaries of the same fiscal incentives. The sale, lease or transfer under any title of said assets to the Concessionaire or to the Users for use within the Free Zones shall be exempt from all taxes.

**Article 29.** The goods, merchandise and raw materials originating in third countries and intended for the Free Zones shall immediately be forwarded to their destination once they have arrived in the country. Likewise, the goods, merchandise and raw materials originating from Free Zones and intended for third countries or for other Free Zones shall immediately be forwarded to their destination once they have left the Free Zones. They may not be placed in warehouses, except if said warehouses are located within the customs house premises or within other premises authorized by law and only for the maximum time period established by the respective regulations.

**Article 30.** When retail trade has been authorized within a Free Zone, it shall be assumed *de jure* that said trade is carried out for the purposes of bringing the goods into the Customs Territory, and the buyer shall pay import taxes. The Ministry of Finance shall regulate the manner in which these taxes will be assessed and collected.

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The Executive Power may regulate sales to tourists, in which case said sales will be given the taxation treatment awarded exports to third countries.

**Article 31.** The General Customs Authority, through its offices established in Free Zones, shall be in charge of controlling the entering into and exiting from Free Zones. It will also be responsible for the transportation of goods to and from ports of embarkation, whether they are land, river or air ports. Said Authority shall verify the lists of goods included in the import and export documents and the value assigned said goods, and shall adopt all necessary measures for customs and administrative control.

## CHAPTER V

### PENALTIES

**Article 32.** The infringement of the provisions of the present Law and/or the non fulfillment of the obligations assumed by the Concessionaire shall be penalized by the National Free Zone Council as follows:

- (a) With a fine of up to 1 per cent (1 per cent) of the amount of the planned investment, in accordance with the severity of the infringement;
- (b) With the cancellation of the concession to exploit the Free Zone, when the violation of the law or the non fulfillment of the contractual obligations are reiterative and severe;
- (c) If the concession is revoked, the Executive Power shall adopt the necessary measures in order to maintain the indispensable infrastructure and to provide the services needed for the normal operation of the Free Zone.

The Concessionaire is obliged to sell or lease the property and its improvements in the Free Zone within the term of one year after the date on which the cancellation has become definitive, in favor of another person who fulfills the prerequisites established in the present Law regarding Concessionaires.

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If the Concessionaire does not do so, the National Free Zone Council shall order the auction of the property and its improvements. Any persons who fulfill the prerequisites established in the present Law regarding Concessionaires may bid at said auction. The net proceeds of the auction shall be credited to the owner; and

(c) In none of these cases is the Concessionaire freed from his civil, fiscal, administrative and/or penal responsibilities.

**Article 33.** The infringement of the provisions of the present Law and/or the non fulfillment of the obligations assumed by the User shall be penalized by the National Free Zone Council as follows:

(a) With a fine of up to 1 per cent (one per cent) of the amount of the planned investment, in accordance with the severity of the infringement;

(b) With the cancellation of the concession to exploit the Free Zone, when the violation of the law or the non fulfillment of the contractual obligations are reiterative and severe;

(c) In none of these cases is the User freed from his civil, fiscal, administrative and/or penal responsibilities.

**Article 34.** The following infringements by the users are considered severe:

(a) Failure to forward to the respective Free Zone the merchandise brought into the country to be taken to said Zone, within the time period established in the regulations;

(b) The forwarding of goods from the Free Zone to third countries or to the Customs Territory without the necessary export documents; and

(c) The inclusion of false information in the list of goods exported to third countries or to the Customs Territory, whether said information refers to nature, quantity, quality or value, including the goods retailed within the Free Zone.

The commission of these infringements will carry a fine equivalent to triple the amount mentioned in Article 33.

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**Article 35.** The directors and managers of a company shall be personally and socially liable; they shall be disqualified for 10 (ten) years to manage any other company, whether it be a concessionary company, an investment company or a user company.

**Article 36.** The person who brings into or takes out of a Free Zone any merchandise in a manner that infringes the present Law, shall be liable for the delict of contraband.

## CHAPTER VI

### NATIONAL FREE ZONE COUNCIL

**Article 37.** The National Free Zone Council is hereby created as an autonomous organism that will relate to the Executive Power through the Ministry of Finance.

The National Free Zone Council is in charge of overseeing and controlling the Free Zones, and will be composed of 3 (three) members appointed by the Executive Power to represent each one of the following institutions:

1. The Ministry of Finance;
2. The Ministry of Industry and Commerce; and
3. The Ministry of Public Works and Communications.

The Council will also have as members:

4. A representative of the Users of Free Zones; and
5. A representative of the Concessionaires of Free Zones.

The representative of the Users and that of the Concessionaires shall be elected by their peers by direct vote in a meeting convened by the Ministry of Finance and they will occupy their positions for 3 (three) years). The failure to elect these two representatives shall not keep the Council from functioning. A representative of the Council shall preside over the meetings convened for the election of the representatives of the Concessionaires and the Users.

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The presidency of the Council shall be exercised in a rotating manner, in the order given in the present Article, for periods of 1 (one) year each.

**Article 38.** The members of the Council that represent the Executive Power will receive a remuneration from the Government.

**Article 39.** The Council shall designate an Executive Director and the necessary administrative personnel, which shall be appointed by the Executive Power.

The remunerations of said Director and personnel shall be budgeted; they shall carry out the instructions given them by the Council.

**Article 40.** The National Free Zone Council shall hold valid meetings with a majority of its members.

The decisions of the Council shall be made on the basis of a simple majority of its members; if there is a tie, the President shall be entitled to a double vote.

**Article 41.** The resolutions of the National Free Zone Council may be subject to a motion to reconsider within 5 (five) days of the date of their notification.

The Council's resolutions may be appealed to the Executive Power within the term of 10 (ten) days. The resolution of the Executive Power can be appealed to the Office of the Controller of the Currency within 10 (ten) days.

The resolutions ordering the cancellation of the right of a User to operate in a Free Zone due to the commission of a severe violation as described in Article 34 shall be implemented immediately, without detriment to the right of the person penalized to appeal to the pertinent instance.

**Article 42.** Any divergence in the interpretation of the present Law and of the contracts derived from it shall be resolved in accordance with the Laws of the Republic of Paraguay and before the Courts of the City of Asunción.

**Article 43.** The National Free Zone Council shall be empowered to:

(a) Control and oversee the operation of the Free Zones;

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- (b) To rule on the requests for concessions in the Free Zones presented to the Executive Power and to prepare concession contracts to be presented for consideration by the Executive Power;
- (c) To penalize the Concessionaires and the Users for infringements of the legal and contractual provisions, after an internal investigation has been carried out;
- (d) To prepare the draft of regulations regarding the operation of Free Zones and to submit them to the consideration of the Executive Power;
- (e) To keep the Record of Concession Contracts granted in favor of Concessionaires as well as the contracts signed by Users and Concessionaires; and
- (f) To establish the regulations and technical specifications for the construction works to be carried out in Free Zones.

## CHAPTER VII

### GENERAL PROVISIONS

**Article 44.** The lands appropriated to the use of a Free Zone shall not be used for another purpose for the duration of the concession and while a company belonging to a User is established in said Zone. Said appropriated lands shall be recorded in the Property Registry.

**Article 45.** The General Storage Warehouses may issue warrants and certificates of deposit of merchandise, raw materials and products stored in Free Zones which have been entrusted to them.

Said certificates shall be negotiable once they have been authorized by the National Free Zone Council.

**Article 46.** Certificates of origin. The Ministry of Industry and Commerce shall issue certificates of origin in accordance with the conditions and formalities established by the Executive Power; in said certificates there shall be no discrimination whatsoever as to the origin of the products processed in the Customs Territory.

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**Article 47.** The preferential treatment granted Paraguayan exports by other countries with respect to certain products and in limited volumes and values shall be taken advantage of preferably by the industries already established in the Customs Territory that export such products. The Executive Power shall adopt the necessary measures towards this objective.

**Article 48.** The bringing into and/or manufacture of the following products in Free Zones is hereby prohibited: arms, gun powder, ammunition and other materials and goods intended for war use, as well as goods declared as being contrary to the interests of the country.

**Article 49.** The Executive Power shall adopt the administrative measures and establish the regulations that it deems convenient to adequately control the operations subject to customs legislation in Free Zones.

**Article 50.** The fees of the customs agents for services performed for Users shall be agreed upon freely between the parties.

**Article 51.** The Executive Power is hereby empowered to regulate the present Law.

**Article 52.** Let this Law be communicated to the Executive Power.

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*Approved by the Honorable Chamber of Senators on the twenty-fourth day of November of the year nineteen hundred and ninety-four, and by the Honorable Chamber of Representatives, thus enacting the Law, on the thirteenth day of December of the year nineteen hundred and ninety-four.*

Atilio Martínez Casado  
President  
Honorable Chamber of Representatives

Evelio Fernández Arévalos  
President  
Honorable Chamber of Senators

Mirian Graciela Alfonso González  
Parliamentary Secretary

Juan Manuel Peralta  
Parliamentary Secretary

Asunción, January 16, 1995

Let this be a Law of the Republic, let it be published and let it be included in the Official Registry.

The President of the Republic  
Juan Carlos Wasmosy  
Orlando Bareiro  
Ubaldo Scavone

***Important Advice: The present translation does not constitute any legal document. Only the original Spanish text, as published in the Legal Gazette of the Republic of Paraguay possesses legal force.***