



DOING BUSINESS
HONDURAS



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02 ***About BLP***

■ About BLP



In 2003, a group of Central American lawyers wanted to revolutionize the legal market and founded a firm focused on the development of client businesses through the assistance of practical legal advice. On this basis, BLP recruits the best talent in the region and thanks to the preferences of its clients has grown to become one of the most recognized firms in the region with offices in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and a representative office in Madrid.

BLP has been recognized on numerous occasions as one of the outstanding law firms in Central America. Such stature has been validated by distinguished publications such as Latin Lawyer 250, Chambers & Partners and International Financial Law Review, Strategy & Business, as well as the referral of the firm to foreign investors by the United States Commercial Service.

BLP is a member of and actively participates in the most recognized international professional networks in the legal field, which demonstrates that the firm provides a global service to its clients, ensuring compliance with the highest standards of legal services recognized anywhere in the world. Our goal is to help you do business in the region easily and safely. This document is the starting point for a series of guides designed for that purpose.





03 *About Honduras*





Official name:

Republic of Honduras

Capital:

Tegucigalpa

Main cities:

Tegucigalpa, San Pedro Sula and Choloma

Form of government:

Presidential democracy



Area: 112.492 Km²



Official language: Spanish



Population: 9,346,277 inhabitants (2021)

GDP per capita: \$2,389



Official currency: Lempira HNL

Average annual exchange rate (2021 est.)

\$1 = 24.22 HNL



Fiscal year: Calendar year



Macroeconomic stability



Legal security



Strategic position and connectivity



Provinces



Integration with global markets

Competitive advantages of investing in Honduras:

Exports: \$7.7 billion (2021)

Principal export markets:

The US, El Salvador, Guatemala, Nicaragua, and Mexico.

■ About Honduras

Principal exports

- Coffee
- Sugar
- Banana
- Palm oil
- Farm-raised shrimp

Free trade agreements:

- **Central America- United Kingdom**
- **Central America- Korea**
- **Peru**
- **Canada**
- **Central America- European Union**
Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama
- **Central America- Mexico**
Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua
- **Northern Triangle - Colombia**
El Salvador, Guatemala, and Honduras
- **Taiwan (Republic of China)**
- **El Salvador**
- **CAFTA-DR**
Central America - United States - Dominican Republic
- **Central America - Panama**
Costa Rica, Guatemala, El Salvador, Honduras and Nicaragua
- **Central America - Chile**
Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua
- **Central America - Dominican Republic**
Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua

Commercial agreements in force

- **Multilateral agreement:**
World Trade Organization (WTO)

Customs union:

- **Member of the Central American Common Market (CACM)**

Preferential trade agreement:

- **Venezuela (AAP.A25TM N° 16)**

Bilateral Investment Agreements:

- **Germany**
- **Chile**
- **China**
- **korea**
- **Cuba**
- **Spain**
- **United States**
- **France**
- **Netherlands**
- **United Kingdom**
- **Switzerland**

■ How to set up a business in Honduras?

*The following are the main steps to start **operations in Honduras**:*

01 Getting Started

Choose the type of company or form of incorporation to structure the business. For more information, see [Getting Started](#).

04 Special Permits and Authorizations

Obtain special permits and licenses applicable to the type of industry to be developed in Honduras. For more information, see [Special Permits and Authorizations](#).

02 Tax System

Register the company with the Commercial Registry and the Tax Administration. Obtain legal and accounting books, a business license, and a tax number. For more information, see [Tax System](#).

05 Labor

Register the company as an employer with the Social Security System, the Ministry of Labor, and the Pension Fund Administrators. For more information, see [Labor](#).

03 Real Estate

Choose the facilities to operate your business, see [Real Estate](#).

06 Intellectual Property

Register and protect any intellectual property required for the operation. For more information, see [Intellectual Property](#).



06 *Getting Started*



1. Getting Started

To do business in Honduras several legal structures can be used, either personally, by incorporating a local company, or through branches. Both local and foreign entities are under the same tax, labor, and corporate systems described below.

- **Local Company**

The two most common business formations under Honduran law are the Sociedad Anónima (S.A.) and the Sociedad de Responsabilidad Limitada (S.R.L.).

- **Corporation (Sociedad Anónima S.A.)**

The S.A. in Honduras can have one or more partners or shareholders, or a legal representative domiciled in Honduras. The creation of an S.A. requires a minimum capital amount without a maximum; the duration can be determined or indefinite. An S.A. must have an administrator, a board of directors, or other supervisory body domiciled in Honduras. The incorporation time is approximately one week including its registration before the Mercantile Registry and the Chamber of Commerce.

The necessary operating permits must be obtained before the deadlines established in the institutions to which it is necessary to apply, and the number of permits will depend on the type of company. The incorporation and operation of the company entail the payment of fees that will depend on the type of company incorporated.

- **Limited Liability Company (Sociedad de Responsabilidad Limitada)**

The S.R.L. limits the liability of social partners to the amount of their capital contribution which must be in lempiras. The shares are not securities and by law, they are not freely transferable. There is a legal right of first refusal (derecho al tanto) in the acquisition of shares for the benefit of the holders of the remaining shares. The transfer of shares requires the approval of 100% of the equity holders. There is a preferential right to subscribe to new capital in proportion to the capital stock. All interests in the capital stock have equal rights; no preferences or limitations may be established.

The company is managed by one or more managers with the authority granted by the equity holders. It does not require a Board of Directors, but it does require supervision by a statutory auditor.

- **Other obligations of Honduran companies in Honduras**

Depending on the type of society created, some Honduran legal entities must submit a statement of the final beneficiaries to the National Banking and Insurance Commission among other reports. A general assembly must be held annually within the first 3 months of the fiscal period and comply with the tax obligations discussed below.

- **Branches and Representations**

Foreign companies may conduct business in Honduras through branches of their parent company provided the following requirements are met:

a. Agreement by the foreign company seeking to open the company in Honduras, designating a legal representative with full power to act on behalf of the branch that is domiciled in Honduras.

b. Declaration of the corporate purpose of the branch;

c. Statement of the parent company including capital stock and full names of all current directors and managers;

d. Legal time limit.

A branch office shall be subject to the laws and jurisdiction of Honduras for its acts performed or to be performed within the country. All documents submitted that have been issued abroad must be duly legalized or stamped by a notary (apostilled).

- **Trusts**

Trust agreements are commonly used by business entities and individuals in Honduras. According to the specific terms and conditions of the trust, the donor transfers to the trustee the ownership of certain assets or rights, for the benefit of the designated trustees.

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Tax System



2. Tax System



Territoriality

In Honduras, registration with the Mercantile Registry and the Tax Administration is essential for the operation of a business. Obtain legal and accounting books, a business license, and a tax number. Both local and incorporated foreign companies are subject to the same taxes.

Who must pay taxes in Honduras?

Individuals domiciled in the country, those not domiciled but staying in the country for at least 183 days in the current year, and any legal entity incorporated in Honduras which carries out commercial activities, including any branch or permanently established non-domiciled legal entity, whether incorporated or not, that conducts business activities within the country are taxed like any other regular taxpayer.

Main taxes

for doing business

Corporate Income Tax

Calculated on taxable net income, the rate is 25% of net income up to 100,000,000.00 HNL; 26% on net income of over 100,000,000.00 HNL.

Solidarity contribution

Commercial entities with taxable net income equal to or greater than one million Lempiras (approx. \$41,000.00) contribute 5% to solidarity.

Net Assets

As calculated on the value of the total net assets determined by the balance sheet as of December 31 of the taxable year, companies exceeding three million lempiras in assets must pay an additional 1%.

Capital gains tax

Transactions that are not part of the ordinary course of business of the company are taxed as capital gains. If the seller is a non-resident, the tax is calculated at a withholding tax rate of 4% of the total transaction. The buyer is required to withhold the tax at the time the payment is made. If payment is made by the government, a 10% withholding tax is applied. The self-computed fee is 10%; 4% is paid by the buyer when the seller is not a resident.

Interest

- *A tax of 10% (withheld) applies to interest paid to a non-resident.*

Dividends

- *A tax of 10% (withheld) applies to dividends received by residents and non-residents.*

Sales Tax (ISV)

- *A sales tax of 15% applies to the sale of goods and services, except for a sales tax of 18% on alcoholic beverages, beer, cigarettes, and business class airline tickets. The sales tax is also applicable to imports.*

Security tax

- *A tax of 3% is levied on transactions made by individuals or legal entities in local or foreign currency at institutions of the national banking system, as well as cooperatives that carry out savings and/or loan transactions. (Exemptions apply).*

Municipal Tax

Industry, Commerce and Municipal Services Tax

- *It is paid annually and is calculated on the gross income obtained by the company in the Municipality in which it operates. Some municipalities include specific taxes for construction companies that will develop specific projects. In some cases, the tax is 1% of the construction budget.*

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Real Estate



3. Real Estate

Generally, there are three ways to establish a business in Honduras: lease a property with facilities, acquire a property with facilities, or build the facilities. Whenever real estate is concerned, the area where a business is to be located and the land under it must be analyzed to ensure that the location and permitted use of such location accord with the needs of the business.

- **Leasing of facilities to operate**

In Honduras, leasing is regulated by a public law called the Tenancy Law and is also governed by the Civil Code. It is advisable to have a written contract that reflects the terms and conditions of the lease.

- **Purchase of operating facilities**

Before making any investment in real estate, due diligence must be conducted on the property, including title, liens, encumbrances, easements, notations and limitations, permitted use and applicable restrictions, availability of utilities, and any other requirements that the operation of the business may warrant. While due diligence is being performed, it is customary to enter into an option or promise to purchase the property with the seller. The direct purchase of the property will be materialized through the execution of a public deed of

sale before a Honduran notary, which will subsequently be registered in the Property Registry.

- **Construction of the facilities to operate the business**

In Honduras, local governments (municipalities) are responsible for granting construction permits, for which the interested party must first obtain other permits and/or licenses required by the type of construction. In general, before obtaining a construction permit from the corresponding municipality, the construction plans must be approved by the competent authorities.

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Special Permits and Authorizations



4. Special Permits and Authorizations

Businesses operating in Honduras are required to have a series of operating permits. It is important to analyze the business well before launching it to ensure that no special permits or particular authorizations are required for the operation. In addition, some businesses may choose to apply for state incentives and benefits regimes. The main permits to consider are municipal permits or patents, labor permits such as employer registration with Social Security, and permits for tax exemptions or special regimes. Free trade zones and other special systems throughout the country offer tax incentives, simplified customs procedures, and competitive advantages.

- **Free Trade Zone**

The Free Trade Zone Law (ZOLI) grants a free trade zone status to a certain portion of the territory of Honduras where foreign or domestic commercial and industrial businesses may be established, mainly engaged in export-related or complementary activities at the request of the interested party.

- **Tax exemptions applicable to renewable energy projects**

To attract investment to the country, the State of Honduras grants different tax benefits to companies involved in renewable energy projects, including developers, generators, and suppliers of energy. These exemptions, incentives, and benefits include:

Sales Tax (ISV - AKA VAT/ IVA)

This benefit covers the exemption of local sales tax on the purchase of equipment, materials, spare parts, parts, attachments, services, and any goods and services that are intended for or directly related to the infrastructure necessary for the generation of electric energy with renewable resources that are used in the study, development, design, engineering,

construction, installation, administration, operation and maintenance of the plant. Certain exceptions apply.

Import Duties

This benefit covers taxes, rates, contributions, tariffs, and import duties, similar in specifications to the tax described above concerning goods.

Income Tax

This benefit covers tax exemption on Income Tax, Temporary Solidarity Contribution, Net Assets Tax, Capital Gains Tax, and all those taxes related to Income, for the first ten (10) years, counted from the date of commencement of commercial operation (only for generators).

Withholding Tax

This benefit covers tax exemption on Income Tax, Withholding Taxes for services of Foreigners Payments for services or fees contracted, financing services (contracted with bilateral or multilateral entities with a focus on development) for the project (only applies to Power Generators).

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Labor



5. Labor

The Honduran Labor Code defines the criteria necessary to identify an employment relationship:

- a) Personal activity of the employee*
- b) Continuous subordination and dependence of the employee.*
- c) Wages are paid as remuneration for the service rendered by the employee.*

Once these three criteria are met, an employee-employer relationship occurs.

- **General Obligations of Employers**

Employers are prohibited from hiring a number of Honduran workers representing less than 90% of the total personnel or paying them less than 85% of the total salary received at the company in question.

- **Working hours**

The ordinary workday shall not exceed 8 hours per day or 44 hours per week, for which a salary corresponding to 48 hours of work shall be paid.

- **Wages**

There is a mandatory minimum wage that is adjusted once a year in accordance with the negotiations established in the Minimum Wage Commission. This commission usually meets in December so that the new wage is effective as of January 1.

- **Days off, Holidays, and vacations**

Employees are entitled to at least one scheduled day off per week. The law establishes mandatory paid holidays for which an employee who works on that day must be paid double time. The worker is entitled to a vacation of 10 days for the first year of work which is then increased for each year worked up to a maximum of 20 days after the fourth year of work.

- **Social Security**

Every company that hires employees must register with the Social Security Institute (Instituto Hondureño de Seguridad Social, IHSS) and register each of its workers from the first day of employment. Both the employer and the employee must contribute to Social Security with the contribution percentages established by Law.

- **Disability and leave of absence**

Incapacity is extended for common illnesses, work accidents, or occupational hazards, as well as maternity leave. These are contemplated in legislation and covered by both the employer and the IHSS.

- **Other labor-related contributions**

The contribution to the National Vocational Training Institute (INFOP) is 1% of the total payroll and is paid by the employer. And the Private Contributions Regime (RAP) where there are 2 different contributions, the individual account, in which the employer and employee contribute; and the other is the Labor Reserve where the contribution is issued 100% by

the employer. Every natural person must contribute with the payment of Income Tax and in the case of employees, it will be through withholding at the source depending on the total income generated by them according to a Progressive Income Tax Table issued by the Revenue Administration Service (SAR).

- **Termination of Employment Contract**

Depending on the form of termination of the employment contract, the payment of vested rights or labor benefits and indemnities will apply. The main reasons for termination are:

- ✓ **Dismissal without employer's liability**
- ✓ **Resignation**
- ✓ **Mutual agreement**

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Intellectual Property



6. Intellectual Property

The protection of intellectual property rights in Honduras is a priority, as reflected in its constitutional protection, special laws, and the country's adherence to the main international treaties that protect this matter, such as the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, the Trademark Law Treaty, the Patent Cooperation Treaty and the Agreement on Trade-Related Aspects of Intellectual Property Rights; the Trademark Law Treaty, the Patent Cooperation Treaty, and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

In Honduras, it is possible to register and defend trademarks, trade names, advertising signs, slogans, literary works, copyright, patents, utility models, industrial designs, undisclosed information, and in general any intellectual property asset held by a company. Many of these assets require a local registration for their protection, so it is necessary to analyze them from the moment the local business or operation is started.





*According to our Sustainability efforts
WE DO NOT PRINT THIS DOCUMENT*

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