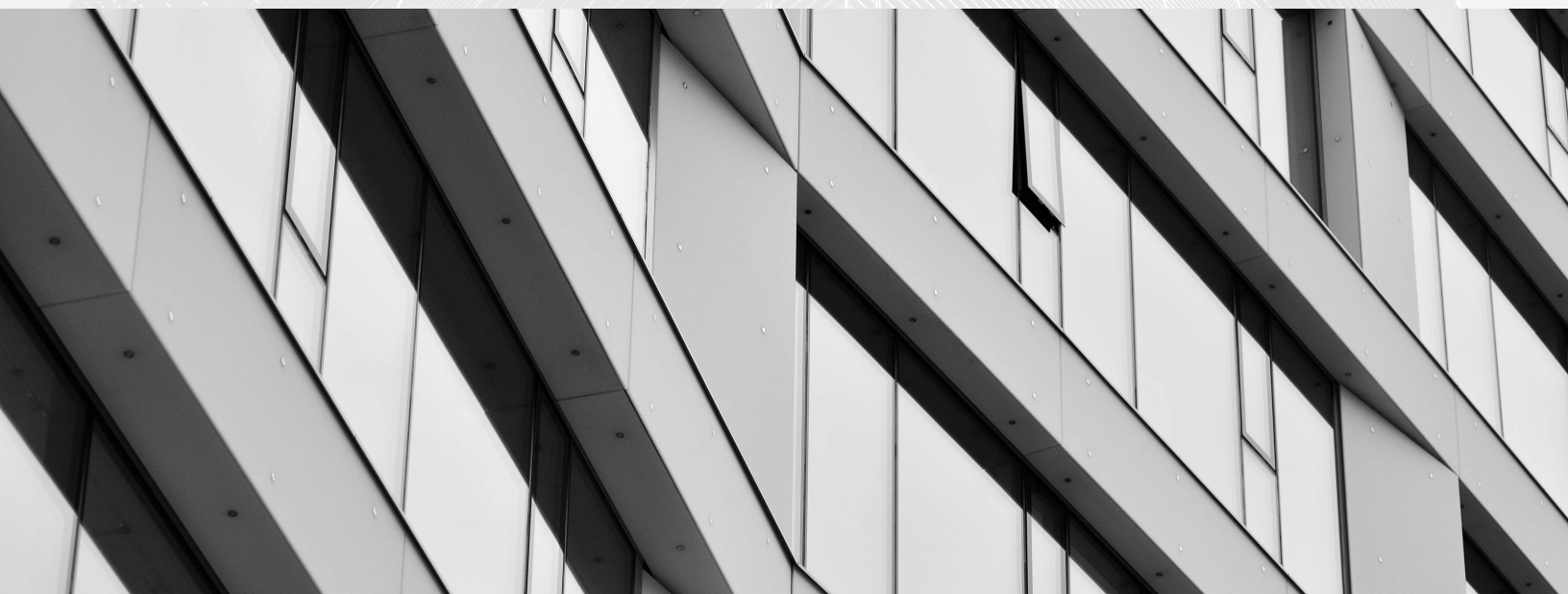


Tax News February 2023

Executive Summary

| Norm | Content | Date |
|----------------------------------|--|-------------------|
| Decree No. 8,878 | The Selective Consumption Tax (" <u>ISC</u> ") rates applicable to tobacco, cigarettes, essences and similar products were increased. | February 22, 2023 |
| Decree No. 8,894 | The amounts in USD provided for in Law No. 60/1990 for access to additional tax benefits for investment projects and others were increased. | February 28, 2023 |
| Decree No. 8,895 | The reduction of (i) the Value Added Tax (" <u>VAT</u> ") taxable base for certain goods under the tourism regime, and (ii) the ISC tax rates for certain electronic products is extended until April 30. | February 28, 2023 |
| Decree No. 8,896 | The validity of the special ISC tax bases for Diesel/Oil Gas Type III is extended until March 31, 2023. | February 28, 2023 |
| General Resolution No.126 | The Undersecretariat of State for Taxation (" <u>SET</u> ") issued administrative measures related to the confirmation of the monthly voucher registration, established in General Resolution No. 90/2021. | February 24, 2023 |





More Information

Decree No. 8,878/2023 - Increased ISC rates for tobacco, cigarettes, essences, and similar products

The Executive Branch issued Decree No. 8,878/2023, by which it resolved to increase by 2% the ISC rates applicable to tobacco, cigarette, essences, and similar products by amending Article 8 of the Annex to Decree No. 3,109/2019 (ISC regulations). Thus, the new rates went from 20% to 22%, being fixed as follows:

| Taxable goods | Former tax rate | Current tax rate | Diff. |
|---|-----------------|------------------|-------|
| 1. Cigarettes scented or made with blond Egyptian or Turkish tobacco, virginia and the like. | 20% | 22% | +2% |
| 2. Cigarettes in general not included in the preceding | 20% | 22% | +2% |
| 3. Any type of cigarettes. | 20% | 22% | +2% |
| 4. Dark or blond tobacco, chopped or otherwise, except in leaf tobacco. | 20% | 22% | +2% |
| 5. Tobacco processed, chopped, in strands, in powder (snuff) or in any other form. | 20% | 22% | +2% |
| 6. Essences or other tobacco products to be heated, vaporized, inhaled or sniffed with electronic cigarettes, vaporized or similar. | 20% | 22% | +2% |

The provision mentioned above does not have an effective date, so it should have become effective as of March 1, 2023; that is, the day after its publication in Official Gazette No. 41, on February 28, 2023.

In February 2022, the Executive Power increased the ISC rate on tobacco, cigarettes, and similar products from 18% to 20% through Decree No. 6,619/2022.



Decree No. 8.894/2023 - Increased the amounts in USD for access to additional tax benefits established in Law No. 60/1990 for investment projects and others.

The Executive Branch issued Decree No. 8,894/2023, which increased from USD 5,000,000 to USD 13,000,000,000, the original investment amount required to access the additional tax benefits provided for in Law No. 60/1990, as amended. This new amount will be applied to the requests for approval of benefits provided in the referred law for investment projects that enter as of March 3, 2023.

The tax benefits affected by this amendment are the following: (a) exemption from the Dividends and Profits Tax ("IDU") or any other tax that may apply to the distribution of dividends and profits; and (b) exemption from the payment of interest, the Non-Resident Income Tax ("INR") and the VAT. On the other hand, when the investment project exceeds the new amount of USD 13,000,000, it must be prepared by technicians or consulting firms registered in the Registry of Consultants of the Ministry of Industry and Commerce.

This modification was a budgetary measure to reduce the tax expenditure of the Paraguayan State, based on Article 289 of Law No. 7,050/2023, which approves the General Budget of the Nation for the fiscal year 2023. In addition, this law empowers the Executive Power to update the amounts outlined in the referred Law No. 60/1990 based on the variation of the Consumer Price Index ("CPI") published by the Central Bank of Paraguay ("BCP"), accumulated until November of the fiscal year 2022.

Although nowhere in the norms mentioned above is it expressly indicated which was the reference year to measure the variation of the CPI, there are mentions in Decree No. 8,894/2023 that suggest that such year would have been 2004. This deduction takes force if we consider that, according to the statistical annex of the BCP inflation report, the CPI as of November 2022 is 2.62 times the CPI of December 2004 and that the current amount of USD 13,000,000 represents 2.6 times the previous amount of USD 5,000,000.

Decree No. 8,895/2022 - The reduction of (i) the VAT taxable base for certain goods under the tourism regime, and (ii) the ISC tax rates for certain electronic products is extended until April 30, 2023

The Executive Power issued Decree No. 8895/2023, whereby it resolved to extend until April 30, 2023 the effectiveness of the following Decrees:

| Decree | Provision |
|--------------------------|---|
| 1. Decree No. 8,048/2022 | Whereby the taxable base of 5% was established for the liquidation of VAT at the time of importing goods under the tourism regime. |
| 2. Decree No. 8,782/2023 | Whereby the temporary modification to 0.5% of the ISC rates for cellular telephony devices and various household appliances, mentioned in paragraphs 2 and 3 of Article 12 of the Annex to Decree No. 3,109/2019, was provided for. |

In accordance with the provisions of the measure related to the tourism regime, the taxable base for VAT remained at 5% for the goods referred to in the annex to Decree No. 1,931/2019. Thus, the effective rate is as follows:

| Period | Taxable base | VAT effective tax rate 10% | VAT effective tax rate 5% |
|----------------------|--------------|----------------------------|---------------------------|
| Until April 30, 2023 | 5% | 0,5% | 0,25% |

As of May 01, 2023, the taxable base of the VAT applicable to the importation of goods subject to the tourism regime will be 15% of the customs value (including customs duties), according to Decree No. 1,931/2019 and its amendments.

On the other hand, regarding the measure adopted concerning the ISC on electronic devices, the Executive Power had resolved to temporarily reduce by half the ISC rates for the following goods:

| Product | Regular tax rates | Reduced tax rates | Difference |
|--|-------------------|-------------------|------------|
| Automatic data-processing machines and units thereof; magnetic or optical readers, copying machines, hectographic machines, mimeographs, mimeographs, address printing machines, electrical machines, apparatus and equipment and parts thereof; sound recorders and reproducers, television reception apparatus, whether or not incorporating radio-broadcast receivers or sound or video recording or reproducing apparatus, video monitors and video projectors | 1% | 0,5% | -0,5% |
| Cellular telephony devices and portable terminals | 1% | 0,5% | -0,5% |

As of May 1, 2023, the 1% ISC rates for cellular telephones and various household appliances will be applied again unless the Executive Branch extends the validity of these provisions again.

Decree No. 8.896/2023 - Extension until March 31, 2023 of the special ISC tax bases for the importation of Type III Diesel/Oil Gas

Through Decree No. 8,676/2023, the Executive Power had fixed, on a transitory basis, the ISC taxable base for the importation of Type III Diesel/Oil Gas, setting it at G3,083.3 per liter until January 31, 2023. This provision was later extended until February 28, 2023, through Decree No. 8,781/2023. Thus, the abovementioned provision is again extended until March 31, 2023, by Decree No. 8,896/2023.

Therefore, until March 31, 2023, the tax base for Type III Diesel/Oil Gas/Diesel is determined at G3,083.3 per liter, as provided in Decree No. 8,676/2023. After this date the taxable base reverts to G3,777.78 per liter, provided for in the annex to Decree No. 3,109/19 as amended, unless this special regime is further extended.



General Resolution No. 126/2023 - Whereby the SET takes administrative measures with respect to the confirmation of the monthly voucher registration stub established in General Resolution No. 90/202

Through General Resolution No. 126/2023, the SET provided that, exceptionally, the failure of taxpayers who are obliged to file monthly vouchers through the Marangatú Tax Management System to confirm the voucher registration stub for the tax periods of January, February, March, April and May 2023 will not constitute tax non-compliance. Specifically, this provision affects the tax liability under code No. 955-REG. MONTHLY VOUCHER.

This means that the lack of confirmation of the voucher registration stub within the period contemplated in General Resolution No. 126/2023 does not entail the negative consequences of non-compliance -other than the fine for contravention-such as the impossibility to generate the tax compliance certificate, increase of the taxpayer's risk index, etc.

This measure complements the provisions of the SET in General Resolution No. 124/2023, which had established the same measure, but was limited to the lack of confirmation of the filing stub for registering tax vouchers corresponding to the fiscal year 2022 under code No. 956- REG. ANNUAL REG. This last resolution also provided that, for both types of registration (annual and monthly), the penalty for contravention was exempted until July 31, 2023.

During the term of validity of General Resolution No. 126/2023, the SET will continue to receive the registration of vouchers and the confirmation of the filing slip.

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