

Doing Business in NICARAGUA



Content

1. About Andersen Global	3
2. Country Highlights	4
3. Corporate Aspects	6
4. Payroll Charges and Labor Rights	13
5. Nicaraguan Taxes Overview	19
6. Corporate Income Taxes	20
7. Indirect Taxes	21
8. Property Taxes	22
9. Funding Alternatives (Debt x Equity)	22
10. Transfer Pricing	23
11. Low Tax Jurisdiction (LTJ) and Privileged Tax Regime (PTR)	23
12. Holding Company Analysis	24
13. Tax Succession and Tax Penalties	24

Andersen Global

Andersen Global® was established in 2013 as an association of legally separate, independent member firms, with a worldwide presence and comprised of professionals that share a common background and the same vision no matter the location where they are.

Our growth is a byproduct of the outstanding client service delivered by our people, the best professionals in the industry and our objective isn't to be the biggest firm, it is to provide best-in-class client services in seamless fashion across the globe.

Outstanding client service
has and will continue to be
our top priority.

Our professionals are selected based on quality, like-mindedness, and commitment to client service and each and every one of the professionals that are a part of Andersen Global share our core values.

Andersen Global was established to create an enduring place – ONE FIRM where clients across the globe are afforded the best, most comprehensive tax and legal services provided by skilled staff with the highest standards.

Outstanding client service has and will continue to be our top priority.



Overview

Strategically located in Central America between Honduras and Costa Rica, with a territorial extension of 130,373.4 km and bordering the Pacific Ocean and the Caribbean Sea, Nicaragua has dozens of volcanoes, lakes, lagoons and rivers, among other landscapes. Likewise, the country has surprising cultural, gastronomic wealth and abundant investment opportunities; Nicaraguans are considered by their visitors to be hospitable. With Spanish colonial origin, Nicaraguan culture reflects the colonial heritage fused with indigenous and Afro-descendant roots.

The country has a population of more than six million inhabitants and the capital is the city of Managua. The official language is Spanish, without detriment to the native languages of the Nicaraguan Caribbean communities. English is also an increasingly popular language.

The country has a population of more than six million inhabitants and the capital is the city of Managua.

The legal currency is the Cordoba Oro (C\$ or NIO) although the American dollar is accepted in general. The Central Bank of Nicaragua established a fixed exchange rate (crawling peg) of the currency through which small adjustments to the national exchange

rate for each dollar of the United States of America are planned daily. Currently, the currency variation is at a rate of 2% annually.

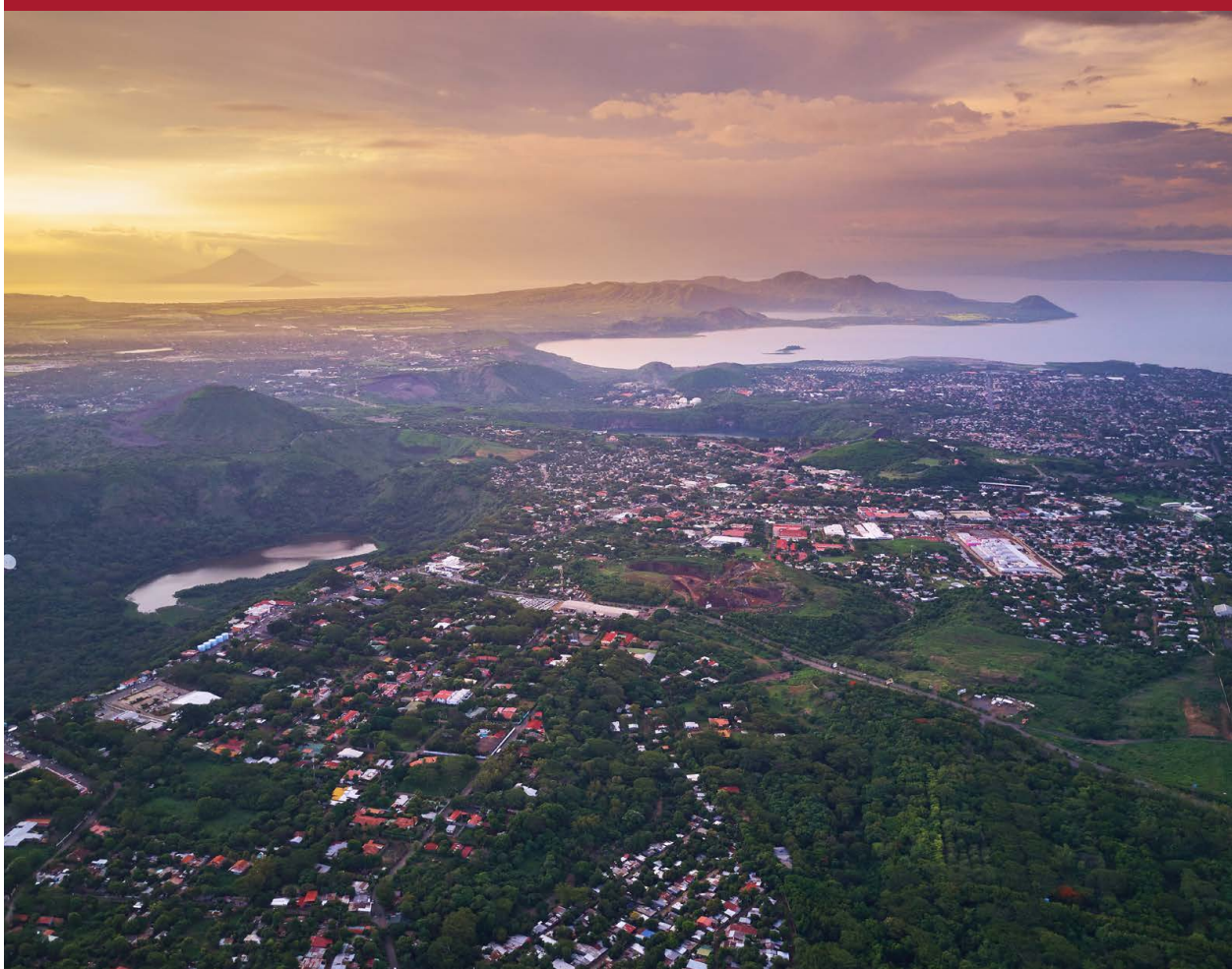
Political System

Nicaragua has a republican system of government, through the implementation of representative democracy. The Political Constitution of 1987 is the social agreement that founds the State and divides the Constituted Power into four branches: Legislative, Executive, Judicial and Electoral, with a system of checks and balances that aims to guarantee a harmonious coexistence.

The Executive Branch is led by a President and a Vice President, who are elected for a period of five years. On the other hand, the Judicial Power is in charge of a unitary system presided over by the Supreme Court of Justice, whose main function is the administration of justice. Likewise, any international treaty that has been signed and ratified by the Nicaraguan State is recognized, as long as its provisions do not contravene the Constitution of the Republic.

Economic Atmosphere

The Nicaraguan economy has historically been oriented to agricultural and livestock activity, as well as to the export of raw materials. Likewise, Nicaragua has ratified a series of Free Trade Agreements with the United States of America (DR-CAFTA), the European Union (AdA), Chile, Taiwan, Korea, Mexico, along with the Central American Common Market (CACM). Additionally, another series of trade agreements have



been signed with various countries such as Canada, Japan, Norway, Russia, Ecuador, Colombia and Switzerland.

Nicaragua's main export products include textiles and clothing, automotive harnesses, beef, coffee, gold, cigars and tobacco, dairy products, sugar, peanuts and beans. On the other side, pro-business legislation and administrative procedures have contributed to a strong inflow of foreign investment in the last decade. The main investment destinations have been in the following sectors: industry, telecommunications, commerce and services, tourism, finance and energy.

In addition to the above, approximately 63% of the population is between the age ranges of 15 to 64 years, and 37% of the population is in ranges under 14 and over 65, which implies that the majority of the population is part of the Economically Active Population, and the highest percentage is represented by women, so Nicaragua is in a position to take advantage of the demographic bonus to exploit its economic potential.

Legal Entities

The Nicaraguan Commercial Code recognizes the following legal entities as investment vehicles:

- a. Company in Collective Name (*Sociedad en Nombre Colectivo*): This entity is characterized by the trust that exists between the partners who have decided to carry out trade under a legal name made up of all of them, who will be personally and jointly and severally liable to third parties who contract with the society. In this type of company, the capital stock is not represented by shares, but in a social participation that cannot be transferred to third parties without the prior authorization of all the partners. Unless otherwise agreed, all partners have the authority of administration of the company and can make use of the company name. As it is a personalistic entity based on the trust of the partners, the separation or death of one of them is a cause of its dissolution. But the partners can by agreement limit their liability, provided the word *limited (de limitada)* is added to the legal name.
- b. Corporation (*Sociedad Anónima*): This entity is a legal entity formed by the meeting of a common fund, provided by shareholders liable only up to the number of their respective shares, administered by revocable agents, and known by the designation of the purpose of the company. The common fund or capital stock is divided and incorporated into shares that can be transferred from one shareholder to another or to third parties. It is worth clarifying that this type is the most common in the Nicaraguan market for its ease of operation. Any person or entity can be a shareholder, with the observation that such character constitutes a requirement to form part of the company's board of directors.
- c. Limited Partnership (*Sociedad en Comandita*): This entity is one that holds one or more individuals unlimitedly, jointly and severally liable for social obligations, with one or more who are not responsible for the debts and losses of the company, but until the concurrence of the capital that is pledged to introduce to the entity. The first is called managers and the second is limited partners, both types of partners must always coexist. Likewise, the entity's legal name must end with the expression in a *limited partnership (en comandita)*. Additionally, these entities function as the company in the collective name.
- d. Partnership Limited by Shares (*Sociedad en Comandita por Acciones*): This entity is one that holds one or more managing partners celebrate unlimitedly, jointly and severally responsible for the social obligations, with limited shareholders whose liability is limited to the number of their shares. At least one managing partner and three limited shareholders are required. These entities operate like corporations and the share capital is expressed in shares. Likewise, a

difference from the limited partnership is that limited shareholders can transfer their shares to third parties without any limitation, as is the case in corporations.

It should also be mentioned that there are a series of special corporations, that must comply with a series of financial or technical suitability requirements to obtain the corresponding government authorization. In the financial sector, we find examples of these companies, such as banks, investment fund management companies or insurance companies, among others.

The incorporation of any of these entities must be carried out in a public deed before a notary public and subsequently must be filed with the Mercantile Registry of their domicile for registration purposes. Additionally, branches of both local and foreign companies can be established. In the same way, Nicaraguan legislation currently does not contemplate the existence of sole proprietorships in any of its aspects.

Government Operating Permits and Licenses

Every commercial entity incorporated in Nicaragua must obtain a series of government permits in order to be able to operate, the basic ones are:

- Mercantile Registry: The company must register the Public Deed of Incorporation before the Mercantile Registry of its domicile, as part of its process of incorporating the new legal entity. Likewise, acts such as the appointment of new boards of directors or general powers of administration must be filed in



this registry for purposes of their validity before third parties.

- Ultimate Beneficial Ownership Registry: The company must declare the natural persons who constitute its ultimate beneficial owners, who at last are the persons who – directly or indirectly – have decision-making power regarding the company's operations, commercial and financial matters.
- Single Taxpayer Registry (RUC for its acronym in Spanish): The company must register with the General Directorate of Revenue (DGI) to be able to pay its taxes properly and to be assigned its unique tax identification number. Likewise, as a result of its registration, the company must become a withholding and tax collector (both direct and indirect taxes) in the various commercial transactions that it carries out with third parties.



- Employer Registration: The company must register with the Nicaraguan Social Security Institute (INSS) in order to be duly registered and to report the employer fees that the company must file monthly as an employer in favor of its employees.
- Municipal Registration: The company must register before its municipality in order to pay the local municipal taxes and request the permits that may be required pursuant to the activities of the company.

In addition to these and in attention to the nature of the activities to be carried out by the company, there may be another series of licenses/permits to obtain, such as in the financial area, free trade zone, customs, natural and energy resources, among others.

Accounting Requirements

Legal entities must keep two accounting books. A daily book, which is the basis

of the accounting, all payment and receipt, must appear in it, day by day, also including the expenses that are incurred in. And a ledger, in which the operations indicated chronologically in the last book are methodically placed in the ledger, each correspondent opened an account, with its debit and credit, to know the status of each account. Both books must be duly sealed and authorized by the competent Mercantile Registry. The fiscal year runs from January 1 to December 31 of each year, so each company must settle a balance relative to December 31 of the fiscal year.

Legal entities must keep two accounting books.

Trusts

Trusts are a recognized operation in Nicaragua by virtue of which the trustor transfers ownership of a good or set of assets or certain rights to the trustee, who is obliged to administer them in favor of the beneficiary and transfer them to the trustee or the trustor when a term, condition or other cause of extinction of the obligation meets. This legal figure operates in accordance with Law No. 741 (Law on the Trust Agreement) and is used as an instrument for the administration of assets, channeling of public and private investments, and constitution of guarantees, among others. Companies that regularly engage in this activity must have government authorization from the Superintendence of Banks and Other Financial Institutions (SIBOIF).

Antitrust Legislation

Nicaragua's Law No. 601 (Law for the Promotion of Competition), aims to promote and protect free competition among economic agents, to guarantee market efficiency and consumer welfare, by promoting a culture of competition, prevention, prohibition and sanction of anti-competitive practices. This law serves both to prevent and punish prohibited conduct, such as unfair competition and anti-competitive practices, as well as to authorize (and deny) concentrations between the various economic agents in the market, which is the responsibility of the National Institute of Promotion of the Competition (PROCOMPETENCIA).

Consumer Protection Legislation

Nicaragua has Law No. 842 (Law for the Protection of the Rights of Consumers and Users), which arises in order to establish a legal framework for the protection of individuals and legal entities' rights who are consumers or users of goods and services; seeking equity, certainty and legal certainty in consumer relations with suppliers of public, private, mixed, individual and collective goods and services.

Likewise, the legislation seeks to guarantee consumers and users the acquisition of the best quality goods or services, as well as promoting and disseminating a culture of responsible, respectful consumption and education on the rights of these individuals. As such, consumer legislation contemplates a series of prohibitions of practices and

obligations to be observed by companies that engage in the trade of goods and services.

Alternative Dispute Resolution (ADR)

In promoting alternative methods to the court system, Nicaraguan legislation, through Law No. 540 (Law of Mediation and Arbitration), recognizes the right of all individuals and legal entities, including the State, in their contractual relations, to resort to mediation and arbitration as well as other similar alternative dispute resolution processes, to solve the patrimonial (and non-patrimonial) differences, with certain exceptions. Carrying out alternative methods can take place either directly or through an authorized institution for such purposes.

The stimulation of ADR goes to the point that according to Article 407 of the Civil Procedural Code, prior to filing a lawsuit in the courts, it must be proven as a requirement to have gone to an authorized mediation center, to try to resolve the conflict in order to avoid starting the judicial proceedings.

Regarding international arbitration, the law grants the authority to submit to internationally recognized ADR as the arbitration procedure of the International Chamber of Commerce (ICC), and in addition, Nicaragua has signed international treaties that contain the necessary mechanisms for its execution, such as the New York Convention of June 10, 1958 and the Inter-American Convention of Commercial Arbitration of Panama.

Nicaragua has also signed and ratified the Convention of the International Center for Settlement of Investment Disputes (ICSID) of the International Bank for Reconstruction and Development, to settle disputes between states and nationals of other states. The use of this dispute resolution mechanism gives guarantees to investors, pursuant to a dispute resolution forum, in case of controversies arise with the receiving state of the investment, which helps to mitigate political risks for the investor.

As a complement to the above, Article 8 of Law No. 344 (Foreign Investment and Promotion Law) establishes that any difference, controversy or claim that arises or is related to foreign investments regulated by that law, may be submitted to international arbitration in accordance with the provisions of the regulations, without prejudice to the application of current national legal norms and agreements to which the Republic of Nicaragua is a party.

Anti-Money Laundering (AML) Legislation

The Nicaraguan legislator in recent years has updated the legal framework in the area of Money Laundering, Financing of Terrorism and Financing of the Proliferation of Weapons of Mass Destruction (ML/TF/FP), in order to fulfill its various international commitments, such as the recommendations of the Latin American Financial Action Group (GAFILAT for its acronym in Spanish).

In this sense, Law No. 977 (Law against Money Laundering, Financing of Terrorism

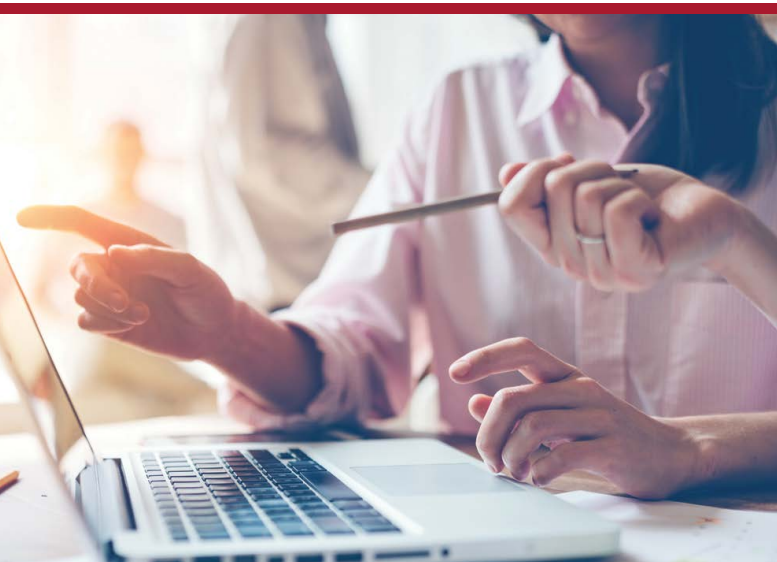
and Financing of the Proliferation of Weapons of Mass Destruction) arises to protect the national economy and the integrity of the financial system from risks associated with the matters in question, through the establishment of mechanisms based on a risk approach to promote and strengthen the prevention, investigation, prosecution and punishment of ML/TF/FP, among other aspects.

As part of the provisions of the legal framework, obligations are created for a series of subjects in order to adopt plans and policies in order to prevent companies from being used for illegal purposes. The obliged subjects range from all financial sectors (banking, insurance, financial, microfinance, capital markets or investment funds) to non-financial sectors such as lawyers, public notaries, accountants, pawn shops or automotive sales, among others.

Intellectual Property (IP)

Nicaraguan legislation, in relation to intellectual property, recognizes the exclusive rights of owners, both individuals and legal entities, in relation to their artistic creations, inventions, and distinctive elements as trademarks for commercial purposes. Intellectual property can be divided into industrial property rights and copyright and related rights, each with special laws that regulate their activity.

Industrial property includes invention patents, utility models, industrial designs, trademarks, service marks, trade names, emblems, advertising signs, designations of origin and geographical indications. On



the other side, copyright and related rights are linked to artistic and literary works such as novels, poems, movies, musicals, art, drawings, paintings, photographs, sculptures, and architectural designs.

The Intellectual Property Registry is the administrative body in charge of safeguarding the rights, protection and development of the intellectual property system in the country.

Nicaragua is a signatory to several international conventions that contemplate intellectual property rights, such as:

- Inter-American General Convention on Trademark and Commercial Protection
- Paris Convention for the Protection of Industrial Property
- Patent Cooperation Treaty (PCT)
- Trademark Law Treaty (TLT)
- WIPO Copyright Treaty
- Berne Convention on Copyright

- Rome Convention on the Protection of Artists, Performers or Performers
- WIPO Performances, Phonograms and Interpretation Treaty (WPPT)
- Brussels Convention on the Distribution of Program-Carrying Signals Transmitted by Satellite
- International Convention for the Protection of New Varieties of Plants (UPOV)
- Agreement on Trade-Related aspects of Intellectual Property Rights

Legal Framework to Promote Foreign Investment

Under Law No. 344 (Law for the Promotion of Foreign Investments), the Nicaraguan legal framework aims to establish the duties, rights and conditions, benefits and guarantees that foreign investments in Nicaragua may avail and seek their promotion as a means to accelerate the economic and social development of the country, within a framework of respect for sovereignty and the national legal order.

As a result of this legal framework, the foreign investor has free access to the purchase and sale of available foreign currency and to the free convertibility of currency, in accordance with the provisions of national laws and regulations on foreign exchange matters and on equal terms with the national investor. Among others, the foreign investor may freely perform, without prejudice to any obligation required in the country:

1. Transfers abroad related to the invested capital, or by dissolution, liquidation or voluntary sale of foreign investment
2. The remittance of any profit, dividend or profit generated in the national territory, after the payment of the corresponding taxes
3. The payment and remittance of payments originated by debts contracted abroad and the interests accrued by them, as well as royalties
4. Income and technical assistance
5. Payments derived from compensation for expropriation

Likewise, this framework provides that foreign investors will enjoy the same rights and means to exercise them in equal conditions with national investors, it also recognizes to the foreign investor the full exercise of the right on the enjoyment, use, enjoyment and ownership of the related property to the investment without more limitations than those established by the Political Constitution.

Additionally, Nicaragua is inserted in the world market through the different organizations of which it is a part, such as the World Trade Organization (WTO), the Central American Integration System (SICA), of which Nicaragua is part of all its institutions and its Council of Ministers for Economic Integration (COMIECO), the Secretariat for Central American

Economic Integration (SIECA), the Executive Committee for Economic Integration (CEIE), and the Central American Bank for Economic Integration (BCIE).

It is also part of the International Center for Settlement of Investment Disputes (ICSID), the Multilateral Investment Guarantee Agency (MIGA), the Private Foreign Investment Corporation (OPIC), the United Nations Commission on Business Law International (UNCITRAL), of the New York Convention and the Inter-American Convention on Commercial Arbitration, and the agreements concluded with the Multilateral Investment Guarantee Agency of the World Bank (MIGA).

All of this broad international framework regulates Nicaragua's trade relations with the world, making it a suitable destination to direct attention towards investment and economic development.

4. Payroll Charges and Labor Rights



Labor Legal Framework

Labor relations are regulated through Law No. 185 (Labor Code), which arises in order to protect, protect and improve the conditions of workers. It establishes a series of minimum guarantees in labor matters, which enjoy constitutional protection and include the right to:

1. The equal wage for equal work in identical conditions, without discrimination for political, religious, social, sex or any other reason, that ensures their well-being compatible with human dignity
2. Be remunerated in the currency of legal tender in the workplace
3. The non-seizure of the minimum wage and social benefits, except for the protection of the family and in the terms established by law
4. Working conditions that guarantee physical integrity, health, hygiene and the reduction of professional risks

to make effective the occupational safety of the worker

5. The eight-hour workday, weekly rest, vacations, remuneration for national holidays and salary for the thirteenth month in accordance with the law
6. Stability in the work in accordance with the law and equal opportunity to be promoted, without more limitations than the factors of time, service, capacity, efficiency and responsibility
7. Social security for comprehensive protection and means of subsistence in cases of disability, old age, professional risks, illness and maternity; and their relatives in cases of death, in the manner and conditions determined by law

The provisions of the Labor Code are mandatory for all individuals or legal entities who are established in Nicaragua. The rights stipulated in favor of the workers are inalienable.

In order to verify compliance with labor rights, through Ministerial Agreement JCHG-003-08 of August 20, 2008, the Ministry of Labor grouped these rights into eight blocks, as follows:

I. Labor Relationship and Individual Employment Contract

Workers have the right to an individual employment contract signed in two copies, and to be given a copy.

In Nicaragua there is freedom of contract, however, employers are obliged not to hire more than 10% of foreign workers, except in cases where for technical reasons they are authorized by the Ministry of Labor to hire more foreigners.

II. Workdays, Breaks, Permits and Vacations

i. Workdays

Labor legislation recognizes various types of working hours, provided as follows:

- a. Daytime Shift: It is carried out between 6 AM and 8 PM. The ordinary daytime workday is eight hours a day, completing 48 hours a week.
- b. Night Shift: Work carried out between 8 PM and 6 AM the following day, is considered as a night shift. The ordinary night shift is seven hours a day, completing 42 hours a week.
- c. Mixed: It comprises part of the daytime period and part of the night period, without exceeding more than three and a half hours in the night shift. The mixed workday should not exceed seven and a half hours per day, nor 45 hours per week.
- d. Continuous: In continuous working hours, the worker has the right to 30 minutes of daily rest, which is considered as effective work.
- e. Discontinuous: The daily rest time is greater than 30 minutes, and it is not considered as effective work.

- f. 4x4 Shift: Shifts of 12 hours a day are carried out for four consecutive days a week, for a total of 48 hours a week. These shifts can be continuous or discontinuous. Subsequently, the worker rests four continuous days. (four days of work and four days of rest.) The Labor Code does not establish this type of working day, but it was authorized by the Supreme Court of Justice, Constitutional Chamber, by Sentence No. 1748 of October 24, 2012.
- g. Extraordinary Shift: The work carried out outside the ordinary daily hours constitutes overtime and must be paid 100% more than agreed for the regular day. Overtime cannot exceed three hours a day or nine hours a week.

ii. Breaks

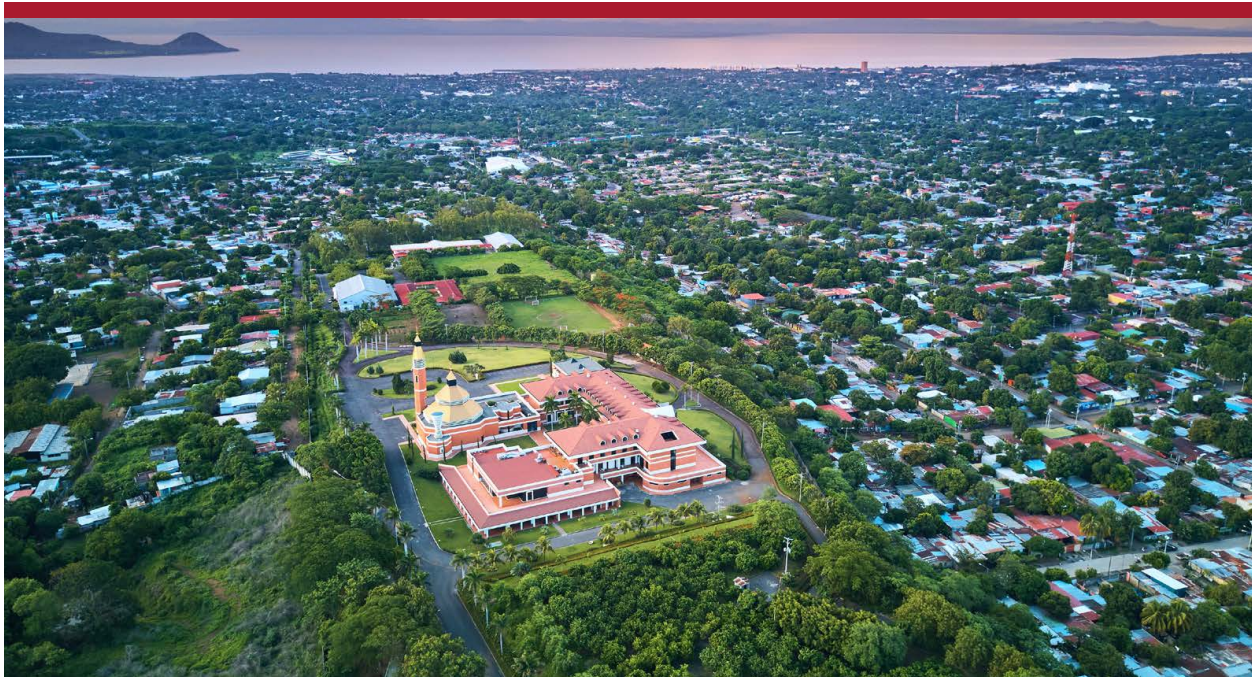
The worker who completes his/her workday in the week, has the right to rest one day a week, that day must be granted with salary.

iii. Permits

Permits or Licenses with Salary

The worker will be entitled to permits or license, with salary, in the following cases:

- a. Due to the death of the father, mother, children or spouse, partner or partner in a stable de facto union according to law, up to three consecutive working days
- b. By marriage, up to five consecutive business days



- c. To go to personal medical consultation
- d. To go to medical consultation due to illness of a minor or disabled child of any age, when it is not possible to do so during non-working hours
- e. For the birth of a child, the father will have the right to five consecutive working days
- f. September 15 (Independence from Central America)
- g. December 8 (Day of the Immaculate Conception of Mary)
- h. December 25 (Christmas)

Holiday with Salary: Those decreed by the Ministry of Labor, according to the main festivities of each municipality.

Holidays

The list of National Holidays, with salary, is as follows:

- a. January 1 (New Year)
- b. Holy Thursday and Friday (Easter)
- c. May 1 (International Workers' Day)
- d. July 19 (Triumph of the Sandinista Popular Revolution)
- e. September 14 (Battle of San Jacinto)

iv. Vacations

The worker accumulates 15 days of vacation for every six months of uninterrupted work. These vacations must be rested with right to salary.

III. Minimum Wage

The wage or salary will be freely stipulated by the parties, but can never be less than the legal minimum. The following is the table of wages in force in Nicaragua, as of March 1, 2022:

Economic Sector	Rate	New Monthly Wage in Cordobas (NIO)	New Approximated Monthly Wage in USD ¹
Agricultural	7%	NIO 4,723.95	USD \$132.13
Fishing	7%	NIO 7,182.92	USD \$200.92
Mines and Quarry	7%	NIO 8,484.04	USD \$237.31
Manufacturing	7%	NIO 6,351.88	USD \$177.67
Free Trade Zones Regime	8.25%	NIO 7,498.46	USD \$209.74
Micro and Small Crafting and Tourism	7%	NIO 4,977.07	USD \$139.21
Electricity, Gas and Water, Commerce, Restaurant and Hotels, Transport, Warehouse and Communications	7%	NIO 8,664.68	USD \$242.36
Construction, Finance and Insurance	7%	NIO 10,571.78	USD \$295.71
Community, Social, Domestic and Personas Services	7%	NIO 6,622.47	USD \$185.24
Government	7%	NIO 5,890.95	USD \$164.78

13th Month or Bonus: Workers receive one month of additional salary after one year of continuous work or the proportional part corresponding to the period of time worked, greater than one month and less than one year. This payment is due in the month of December.

IV. Labor Discipline

The employer has an Internal Labor Regulation duly authorized by the Ministry of Labor. The Ministry of Labor is of the

criteria that every workplace that has 10 or more workers must have the Internal Work Regulations.

V. Workers' Collective Convention

Workplaces that have a collective agreement for their workers, comply with each one of its clauses. The Ministry of Labor will ensure that collective agreements in no case restrict the minimum guarantees provided in the Labor Code.

Note:

¹ According to the official exchange rate of July 7, 2021 (USD \$1 = NIO 35.1815)

VI. Right to Social Security (INSS for its acronym in Spanish)

All workers must be duly registered with Social Security (INSS). In the event of an accident or occupational disease, if the worker is not insured, the employer must bear all medical expenses and pay the worker compensation for risk.

Subsidy: Insured workers, in cases of illness, maternity and professional risks, will have the right to enjoy a temporary disability subsidy. When the illness suffered by an active or unemployed insured produces incapacity for work proven by the medical services of the National Unified Health System, he/she will enjoy by means of rest orders a subsidy equivalent to 60% of the average of the last eight weekly contributions within the 22 weeks preceding the initial date of the disability. The subsidy will be granted for the duration of the disability and will be paid from the fourth day of disability and for the duration of that situation up to the term of 52 weeks.

VII. Equality and Non-Discrimination

a. Rights of Working Women:

- There is no discrimination based on sex, and that the salary of working women is equal to that of men.
- Pregnant applicants are not denied hiring because of their pregnancy.
- There are policies in the company against sexual harassment and harassment at work.

- Women applicants or workers do not undergo pregnancy tests.
- Employers give all pregnant workers four weeks paid rest before delivery and eight weeks after, or 10 weeks if the delivery is multiple, with the last or best salary.
- During pre and post-natal rest, the employer must pay 40% of the worker's salary, under which the INSS will assume 60%.
- That the workplace does not have a suitable location for breastfeeding or that, in the absence of the premises, allows workers to arrive one hour late or leave an hour earlier, during a period of six months after delivery.

b. Medical Tests and HIV

- Discriminatory medical examinations are not carried out on workers (pregnancy tests, HIV-AIDS tests, finger tests, exhaustive medical examinations, polygraph exams and others).
- Individuals living with HIV-AIDS are not denied their hiring due to their illness; infection is not an impediment for them to work.

c. Hiring Individuals with Disabilities

At least 1 disabled person for every 50 working people, maintaining a ratio of 50 to 1, must be hired.



d. Freedom of Association

There must be union participation and organization. Workers have the right to join and form unions. If a company has 20 or more workers, they have the right to form a union and bargain collectively.

e. International Treaties

Nicaragua has signed a series of international labor treaties in order to seek the protection of workers' rights. Likewise, the country is part of the International Labor Organization (ILO). Among the treaties that Nicaragua has ratified, the following stand out:

- C029 - Forced Labor Convention, 1930 (No. 29)
- C087 - Freedom of Association and Protection of the Right to Organize Union, 1948 (No. 87)
- C098 - Right to Organize and Collective Bargaining Convention, 1949 (No. 98)
- C100 - Equal Remuneration Convention, 1951 (No. 100)
- C105 - Abolition of Forced Labor Convention, 1957 (No. 105)

- C111 - Discrimination (Employment and Occupation) Convention, 1958 (No. 111)
- C138 - Minimum Age Convention, 1973 (No. 138) Specified minimum age: 14 years
- C182 - Worst Forms of Child Labor Convention, 1999 (No. 182)

VIII. Rights of Adolescent Workers

- The minimum age to work is 14 years old.
- Adolescents between 14 and 16 years of age who are not yet fulfilled may work with the consent of their parents and the authorization of the Ministry of Labor.
- Adolescents aged 16 and 18, have full capacity as workers, without the consent of their parents and the authorization of the Ministry of Labor.
- The working day of adolescent workers may not exceed six hours a day and 30 hours a week.
- They will be entitled to the same salary as adult workers, regardless of whether their hours are reduced.

By Resolution 076/2007 of June 8, 2007, issued by the INSS, it was authorized to register adolescent workers in Social Security.

5.

Nicaraguan Taxes Overview

In Nicaragua, the tax system is regulated by Law No. 822 (Tax Concertation Law) and its reforms, its regulations and the amendments to the regulations. This norm is based on the principles of legality, generality, equity, sufficiency, neutrality, and simplicity, and is intended to create and modify internal national taxes and regulate their application. Likewise, there is a tax code that regulates the relationship between the internal revenue office (DGI for its acronym in Spanish) and taxpayers.

Regarding the Income Tax (IR for its acronym in Spanish), this is a direct and personal tax that is levied on the following Nicaraguan source income obtained by taxpayers, residents or non-residents:

1. Income from work
2. Income from economic activities
3. Capital income and capital gains and losses

Likewise, the IR taxes any increase in unjustified wealth and income that is not expressly exempt or exempt by law. Additionally, it is commented that to date Nicaragua has not signed any double taxation treaty.



6. Corporate Income Taxes

Income Tax (IR) for Economic Activities

The tax base of the annual IR for income from economic activities is the net income, resulting from gross income fewer deductible costs and expenses. On this net income, an aliquot is established to pay for the income from economic activities, which is at a 30% rate.

On the other hand, those taxpayers – individuals and legal entities -with an annual gross income of less than or equal to NIO 12 million, will liquidate and pay the IR applying the following rate to net income:

Annual Net Income Strata		Applicable Rate on Income
From NIO (C\$)	To NIO (C\$)	
0.01	100,000.00	10%
100,000.01	200,000.00	15%
200,000.01	350,000.00	20%
350,000.01	500,000.00	25%
500,000.01	Plus	30%

IR taxpayers of income from resident economic activities are subject to the final minimum payment, which will be determined by calculating 1% of the amount of annual gross income. The minimum payment will not form part of the tax base for income on which definitive withholdings have already been made. The IR payment will be the greater amount that results from comparing the final minimum payment with the annual IR.

In addition to this regime, there is a fixed quota regime for small and medium businesses (SME), which must change to the ordinary regime once they exceed certain thresholds.

Value-Added Tax (VAT)

The Value-Added Tax is imposed on acts carried out in the Nicaraguan territory on the following activities:

- Disposal of assets
- Import and internationalization of goods
- Export of goods and services
- Provision of services and use or enjoyment of goods

The VAT rate corresponds to 15% of the value of the product or cost of the activity carried out with the exception of exports of domestically produced goods and services provided abroad, on which a 0% rate is applied.

The law establishes lists of services and goods exempt from VAT, among others, goods related to academic studies, medicine and human health, agricultural goods, basic foods and others, as well as services in the

medical sector, financial markets, sports, religious events, etc. Exempt goods and services are defined in exhaustive lists issued by the Ministry of Finance and Public Credit.

VAT will be applied in a way that affects the added value of the various operations that a good, a service, or use or enjoyment of encumbered assets may be subject to once, through the transfer and accreditation of the same in the way that establishes the legislation.

Selective Consumption Tax (SCT)

The Selective Consumption Tax is an indirect tax that is levied on acts carried out in Nicaraguan territory on activities such as disposal of assets, import and internationalization of goods, and export of goods. Some of the goods subject to this tax are, for example, cigarettes, beer, alcoholic beverages, among others. The Excise Tax (ISC) will not be considered income for the purposes of the IR or municipal taxes, but it will be part of the VAT tax base.

Tax Stamp

The Tax Stamp is an indirect tax that is imposed on the consumption of certain legal acts by means of documents issued in Nicaragua or abroad when such documents must take effect in the country. The Tax Stamp rates are provided in Article 240 of Law No. 822, Tax Concertation Law.



8.

Property Taxes

Real Estate Tax (IBI for its acronym in Spanish)

This tax is levied on properties located within the territorial jurisdiction of each of the country's municipalities and that is under the taxpayer's domain and/or possession as of December 31 of each year. Properties, stable or permanent plantations and the fixed and permanent constructions or facilities in them according to what is defined in Articles 599 and 600 of the Civil Code, are considered immovable property (non-movable objects, their parts, and the products that are fixed permanently to the property).

The payment of the real estate tax corresponds to 1% of the tax base, whose value falls on the cadastral value, which is considerably less than the market value. Real estate tax can be paid in two equal parts, of which 50% is payable during the months of January, February and March, and the other 50% no later than June 30 of the same year. If the taxpayer pays the full amount of IBI during the first quarter, a discount of 10% of the tax to be paid is applied.

9.

Funding Alternatives (Debt x Equity)

Funding Through Debt

A corporation can be financed by contracting credits (or lines of credit) with third parties, whether by a financial institution or private individuals. Practice requires that the company offer real guarantees (mortgages or security interests) as a condition for granting the credit.

In addition to this, the Nicaraguan capital market offers private companies the possibility of resorting to the issuance of bonds to raise money through debt. In order to issue bonds to the public, the interested company must have the proper authorization from the financial regulator.

Funding Through Equity

The most common way that corporations in Nicaragua use to finance themselves through capital is through the issuance of new shares from the company, in order to procure raising money through the capital. Pursuant to Nicaraguan law, shares can be divided into different series, in order to contemplate rights or preferences in favor of the company's investors.

Likewise, and as a hybrid financing element, credit instruments can be issued that can be converted into shares, taking into account contractual obligations and clauses, such as debentures or convertible bonds. Government authorization is only required if the issuance of bonds of this nature is public, in the sense that its offer is directed to any interested person or entity.

10. Transfer Pricing

Transfer Pricing in Nicaragua is regulated by Law No. 822 (Tax Concertation Law), and the regulation arises in order to achieve any operation that is carried out between related parties, between a resident and a non-resident, and between a resident and those that operate in the free zone regime, and have effects in determining the taxable income of the fiscal period in which the operation is carried out or in the following ones.

The same law defines what is understood as related parties and makes a review of both the requirements and documentation that must be observed and provided, in order to determine that an operation between related parties is carried out under market conditions, taxing as such.

The legal framework of the matter adopts the principle of the most appropriate method among the following methods:

1. Uncontrolled comparable price
2. Added cost
3. Resale price
4. Cost-plus benefits
5. Profit distribution
6. Net Margin of the transaction

11. Low Tax Jurisdiction (LTJ) and Privileged Tax Regime (PTR)

As part of investment promotion, the Nicaraguan legal system contemplates a series of special benefit regimes, which include tax exemptions. These regimes seek to attract high economic investment; for its application, it's necessary to observe a series of technical, financial or environmental requirements, in attention to each sector. The economic areas that have regimes with tax benefits are the following:

1. Free trade zones and business process outsourcing (BPO)
2. Hydrocarbon and natural gas
3. Renewable energy
4. Mining
5. Forest
6. Tourism
7. Marina and ports
8. Construction of low-income housing
9. Fishing and aquaculture
10. Public-private partnerships

12. Holding Company Analysis

This type of legal entity does not have its own regulation in Nicaragua, therefore, its regulation regarding its constitution will depend on the type of legal entity used for its creation and, regarding its obligations

and rights, it will be subject to the legal framework that generally applies to legal entities. In most cases, holding companies are incorporated as corporations in Nicaragua.

13. Tax Succession and Tax Penalties

Tax Penalties

The Nicaraguan legal system contemplates a series of criminal and administrative penalties for tax offenses. In this sense, Article 124 of the Nicaraguan Tax Code contemplates the following administrative penalties:

1. Fine
2. Closure of stores or businesses
3. Loss of concessions and other tax benefits
4. Disqualification for the exercise of trades and professions in tax matters provided that such professional performance requires the approval of the Tax Administration
5. Administrative intervention of businesses or companies
6. Forfeiture of merchandise, objects, vehicles, and other elements used for the commission of the crime



In addition to these administrative penalties, the legal system contemplates a series of criminal sanctions such as imprisonment for the incursion of tax crimes such as tax fraud.



Central Law, Nicaragua

A collaborating firm of Andersen Global

For more information, please contact your Andersen Advisor or visit global.Andersen.com to view our global office locations.

The opinions and analyses expressed herein are subject to change at any time. Any suggestions contained herein are general, and do not take into account an individual's or entity's specific circumstances or applicable governing law, which may vary from jurisdiction to jurisdiction and be subject to change. Molina & Asociados, S.A. is the Nicaraguan collaborating firm of Andersen Global, a Swiss verein comprised of legally separate, independent member firms located throughout the world providing services under their own name. Andersen Global does not provide any services and has no responsibility for any actions of the collaborating firms, and the collaborating firms have no responsibility for any actions of Andersen Global. No warranty or representation, express or implied, is made by Molina & Asociados, S.A., nor does Molina & Asociados, S.A. accept any liability with respect to the information and data set forth herein. Distribution hereof does not constitute legal, tax, accounting, investment or other professional advice. Recipients should consult their professional advisors prior to acting on the information set forth herein. © 2022 Molina & Asociados, S.A. All rights reserved.

