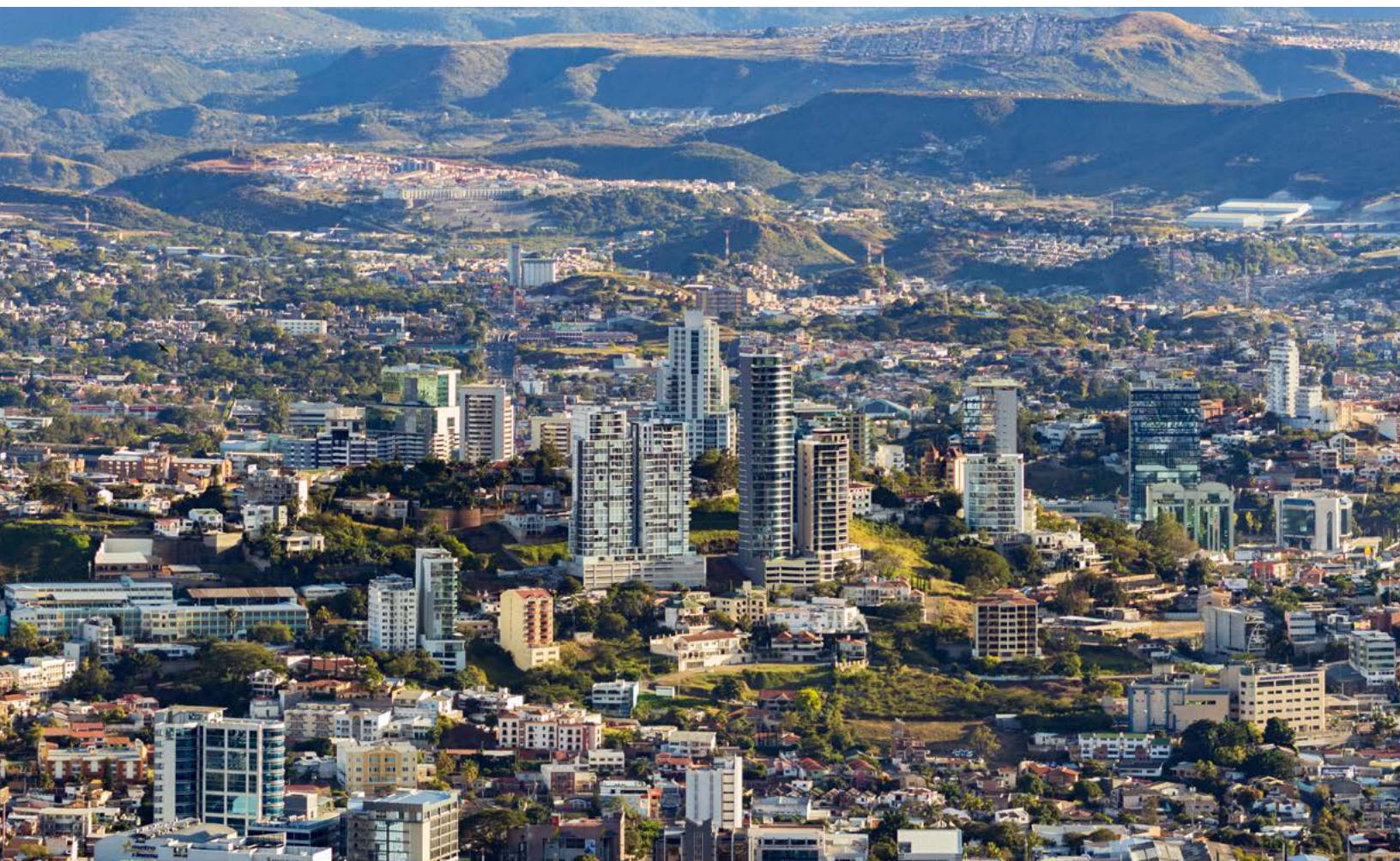




Doing Business in HONDURAS



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1.

About Andersen Global

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.



2.

Country Highlights

Region

Latin America & the Caribbean

Area

112,492 km²

Income Category

Lower middle income

Population

9,587,522

Language

Spanish

Currency

Honduran Lempira (HNL)

Political System

Republican, Democratic and Representative

Form of Government

Presidential

Economic Atmosphere:

Honduras had registered the second-highest economic growth rates in Central America, only behind Panama. The country's GDP growth reached 4.8% in 2017, 3.7% in 2018 and 2.7% in 2019, above the average in Central America and well above the average in Latin America and the Caribbean (LAC). However, due to the impact of the COVID-19 (Coronavirus) pandemic, the country's economy is expected to register a -2.3% growth in 2020 and 3.9% in 2021.



Honduras had registered the second-highest economic growth rates in Central America, only behind Panama.

3.

Corporate Aspects

Business Structures

- General partnership (sociedad en nombre colectivo)
- Ordinary limited partnership (sociedad en comandita simple)
- Joint-stock company (sociedad en comandita por acciones)
- Limited liability partnership (sociedad de responsabilidad limitada S.DE R.L.)
- Stock company (sociedad anónima S.A.)
- Cooperative company (sociedad cooperativa.)

Foreign investors may establish their businesses through any of the legal forms contemplated by domestic legislation. Local companies with foreign capital can access domestic credit with the same rights and under the same conditions as local companies with domestic capital.

The Limited Liability Company and the Stock Company are the models most frequently used by both locals and foreigners, other than the branch.

Foreign investors may establish their businesses through any of the legal forms contemplated by domestic legislation.

Formation Procedure

- Register the company at the Public Commercial Registry Office
- Issue shares in accordance with the shareholders' investment

Submit before the Chamber of Commerce:

- The Articles of Incorporation
- The list of shareholders and a copy of their ID's or Passports
- Minutes of the First General Shareholder's Meeting

Submit before the Tax Authority (Servicio de Administracion de Rentas):

- Obtain the Taxpayer's Identification Number (Registro Tributario Nacional) from the Tax Authority

Municipal Permit

- Obtain the operating permit at the City Hall (Permiso de Operacion)

Branch or Permanent Establishment

After a legal reform issued on July 15, 2011 by Decree 51-2011, a company established abroad could incorporate a branch in Honduras once its existence in the country of origin is certified before the Public Registry of Commerce. This can be accomplished by filing the following documentation:

- Apostilled copy of the certificate of registration in the country of origin



- Shareholder's Agreement appointing a permanent Honduras resident to be the company's legal representative
- Incorporation statutes, if any

Once all the documentation is filed as required, the Public Registry of Commerce should proceed to the incorporation of a branch issuing a resolution within a week.

The person appointed by the parent company who must be a Honduras resident, to which powers of attorney are granted and registered in the Public Registry, directs the branch's business. Such power may be revoked only by the parent company or by the holder of an overriding power of attorney in Honduras.

The scope of the representative's power of attorney may vary according to the parent company's policy but should be

sufficiently extensive to allow for adequate representation in Honduras. It is advisable to permit delegation of certain powers, such as the signing of checks.

There is no regulation requiring the filing of the parent company's financial statements in Honduras.

Corporate Residence

Honduran authorities regard the place of incorporation as the corporate residence. Nonresident companies are those incorporated/registered outside of Honduras. However, income taxes on corporations are levied on local income regardless of the place of incorporation. In addition, any person or company resident in Honduras is subject to tax on both local and foreign income.

4. Payroll Charges and Labor Rights



Labor Law Requirements

- Labor relations between an employer and employee in Honduras are regulated by the Honduran Labor Code, which applies to all companies operating in Honduran territory. Consequently, companies operating under special laws like the Export Processing Zones, Free Zones or RIT are also regulated by this Code.

Wages and Salaries

- Minimum wage is the lowest salary that can be agreed upon in an employment contract. The government establishes minimum wages every year.
- The range of the approved minimum wage for the year 2020 is as follows: the minimum wage ranges between HNL 6, 762 monthly (approximately USD \$274.62) and HNL 12, 357 monthly (approximately USD \$502.03) according to the activity of the company and the size of the companies by number of workers.

Christmas Bonus

- The employer is obliged to pay the worker in the month of December a

Christmas bonus consisting of one ordinary monthly salary earned by the worker in the calendar year.

14th Month Bonus

- The employer is obliged to pay the worker in the month of June a bonus consisting of one ordinary monthly salary earned by the worker in the calendar year.

Fringe Benefits

- The employer has the option to provide some fringe benefits to its employees and executives; in general, this type of benefit will be taxable for the employee with some exceptions.

Hours Worked

- Maximum labor hours are eight hours daily, and should not exceed 44 hours a week. There are other special shift arrangements allowed by the labor law.

Notice of Termination of Employment

- In case of termination of employment, employers must provide a notice of dismissal one month in advance when the employee has served between one and two years; two months when he or she has served more than two years.

Severance Payment

- The severance payment is generally payable in case of unjustified dismissal, at one month's salary per year of uninterrupted service up to 25 years. The law specifies the causes of just dismissal.

Vacations are determined as follows:

- After one year of continued service, 10 consecutive working days
- After two years of continued service, 12 consecutive working days
- After three years of continued service, 15 consecutive working days
- After four or more years of continued service, 20 consecutive working days

Technical Education Contribution

- A payroll-based contribution is imposed on employers toward the financing of a program for the technical instruction and training of workers. The contribution for employers is 1% of the total monthly payroll; employees do not contribute.

Foreign Personnel

- There is a restriction on foreign personnel in Honduran companies, as the Constitution stipulates that at least 90% of the employees have to be Hondurans. The wages received by Hondurans must amount to at least 85% of the total payroll (Section 137 Constitution of Honduras). There are some exceptions to the rule in specific cases.

Social Security

- The Honduran Institute of Social Security is the government agency responsible for controlling and monitoring the social benefits that assist the Honduran employee: Disability, Old Age and Death (IVM) and Sickness and Maternity (EM).

- Under the new legislation Framework Law of the Social Security System, employees pay 2.5% of their gross monthly salary and employers 5.0% for sickness and maternity (EM). In addition, employees pay 2.5% of their monthly salary and employers contribute 3.5% for Disability, Old Age and Death (IVM).
- The new provisions provide that for the calculation of these percentages must be considered the first HNL 8,211.30 monthly wages of each employee. The payments are made by the company monthly and must be withheld from the employees' salary weekly, bi-monthly or monthly depending on the way employees are paid.

The National Training Institute (INFOP) and Social Housing Fund (RAP)

The National Training Institute (INFOP) and Social Housing Fund (RAP) are also public institutions in charge of training programs for employees and housing finance. Employees pay 1.5 % of gross salary to the RAP, which must be deducted from the monthly salary. The employer's contribution is 1.5% of each employee's gross salary. The contribution to the INFOP represents 1% of the total company's payroll and is paid only by the company. Nonetheless, the Framework Law of the Social Security System states that all the new employer contributions and new individual contributions that may occur in the Private Contributions Regime (RAP) must be voluntary.

5. Payroll Charges and Labor Rights

In Honduras, several taxes are paid regarding three general concepts:

- The income of the natural and legal person
- The assets of natural and legal persons
- Transactions that are generally made

There are different entities in charge of its collection, such as:

- Revenue Administration Service (SAR)
- Municipalities
- Property Registry
- Mercantile Registry
- Others

Municipal Taxes

Companies doing business in Honduras are also subject to the rules and regulations of the respective municipality. Tax obligations are regulated by the Plan de Arbitrios. These include:

- Industry, commerce and service tax – based on sales volume per year
- Personal municipality tax – individual tax
- Public service tax – tax paid for services such as waste management
- Real estate – tax on asset and asset gains



- Sign tax – taxation on public advertising

National Security Regulation

The Secretary of Finance issued national Security Regulation on January 25, 2012 to determine the application of the norms established within the National Security Law.

Taxation was established as follows:

- Special tax levied on the financial system for bank accounts transactions and renewal of credit cards memberships
- Special contribution on cell phone companies taxed with a 1% rate on monthly gross income (i.e., air time)



- Special contribution on the mining sector taxed with a 2% rate on the FOB value for exports
- Special contribution on food and beverage companies taxed with a 0.5% rate on their monthly gross income
- Special contribution on casinos y slot machine companies taxed with a 1% rate on their monthly gross income
- Special contribution on the cooperative sector taxed with a 3.6% rate on their net annual surplus

Corporate Deduction

The net taxable income of an enterprise is determined by deducting all the ordinary and necessary expenses incurred in the creation of income, including amortization and depreciation; municipal taxes; donations made in favor of the State, the Central District, the Municipalities, and legally recognized educational institutions, charities

and sporting facilities; mandatory employer employee contributions to the social security system; and reasonable charges for royalties and management services. In general, all expenses incurred in the generation of taxable income are considered deductible for income tax purposes. However, there are some non-deductible expenses, even if incurred in the generation of income, for example, a) interest paid to owners or shareholders; b) capital losses.

Taxpayers are identified through a National Tax Registry number or RTN, with which they must register each tax activity that they carry out.

There are two types of tax obligations recognized by the current Tax Code (Decree 170-2016), formal tax obligations and material tax obligations.

The material obligations that entail making a payment by the taxpayer himself or on behalf of others, as well as all other accessory obligations that are intended to provide economic content; and the rest of the obligations must be considered as formal obligations.

Among the formal tax obligations, we have, presentation of the Income Tax Declaration, Sales Tax Declaration, Capital Gains Declaration, Declaration of Starting Activities, Declaration of Withholdings, Declaration of participation of dividends, Notification of change of activities, legal representative, fiscal domicile, the closing of operations, among others.

Honduran Principal Taxes

1. Income Tax	<p>a. 25% of total net taxable income. It is paid in advance in three equal quarterly installments, whose due date is June 30, September 30 and December 31, the last payment is made with the presentation of the declaration on April 30 of each year.</p> <p>b. 1.5% of the gross income equal to or greater than HNL 10 million of the tax period will be paid when the application of the rates indicated in literal a) turns out to be less than 1.5% of the declared gross income.</p>
2. Tax on Net Assets	1% on the total net assets determined in the Balance Sheet that exceeds HNL 3 million
3. Solidarity Contribution	5% on the excess of the net taxable income greater than HNL 1 million
4. Capital Gains Tax	10% on the value of profit produced by transactions that are not the taxpayer's usual line of business
5. Sales Tax	The general 15% for services and products and 18% applied to alcoholic beverages, beers and cigarettes as well as business class air tickets. A Sworn Sales Declaration must be declared monthly and must be made known to the Treasury, in the period of the first 10 calendar days of the following month in order not to be subject to sanctions.
6. Industry, Commerce and Services Tax	This is according to the Municipal Regime; it will depend on the area where the business operates. It taxes the income obtained within the municipality, through a progressive regressive rate. An annual return is filed no later than January 31 of each year; their form of payment is monthly.

Income Tax

Income tax is regulated by the Income Tax Law (Decree No. 25) and it consists of an annual tax that is imposed on income from capital, labor activities or a combination of both.

For this purpose, income is defined as any kind of yield, utility, profit, rent, interest, product, profit, participation, salary, wages, fees and, in general, any reception in cash, in values, in kind or in credit, that modifies the taxpayer's assets.

It is governed by the taxpayer's capacity or ability to pay.

Additionally, through the reform carried out by the current Tax Code (Decree 170-2016), as of 2017, Honduras is governed by the principle of Territorial Income.

- This tax is declared before the Tax Authority, the Revenue Administration Service (SAR) no later than April 30 of each year, it is paid through the Regime of payments on account made in advance that are calculated based on the previous period.

The general rate that companies will pay for this tax is 25% of the net income.

Natural or legal persons domiciled in Honduras will pay 1.5% on gross income equal to or greater than HNL 300 million of the tax period when the application of the rates are less than 1.5% of gross income obtained from the other calculation.



The general rate that companies will pay for this tax is 25% of the net income.

Tax on Net Assets

It is an annual tax applicable on the total assets of a company domiciled in Honduras. The tax base will be the result of the value of the assets that appear in the Balance Sheet of the last fiscal period of the taxpayer, subtracting the reserves of accounts receivable, and depreciation allowed by Law.

Personal Income Tax

Also, the company is the entity in charge of the withholding income tax generated by employees derived from the salary paid.

A declaration must be submitted on a monthly basis (declaration of withholding at the source) before the tax entity, detailing the tax withheld and notifying it no later than the first 10 days of each month.

The progressive rate to be withheld is according to the following:

From HNL .01 to HNL 165, 482.06	Exempt
From HNL 165, 482.07 to HNL 252, 330.80	15%
From HNL 252, 330.81 to HNL 586, 815.84	20%
From HNL 586, 815.85 to onwards	25%

When a company is not domiciled in the country, the following withholdings must be made:

Tax Rates

1	Rent of movable or immovable property, except those included in numerals 5 and 7 of Article 5 of the Law	25%
2	Royalties from operations of mines, quarries or other natural resources	25%
3	Salaries, wages, commissions or any other compensation for services rendered either within the national territory, excluding remittances	25%
4	Income or profits obtained by foreign companies through branches, subsidiaries, affiliates, agencies, legal representatives and others that operate in the country	10%
5	Income, profits, dividends or any other form of profit sharing or reserves, of natural or legal persons	10%
6	Royalties and other amounts paid for the use of patents, designs, secret procedures and formulas, trademarks and copyrights	25%
7	Interest in commercial operations, bonds, securities or other classes of obligations	10%
8	Income from the operation of aircrafts, ships and land vehicles	10%

9	Operating income of communications companies, use of software, computer solutions, telematics and others in the communications area	10%
10	Insurance and security premiums of any kind of contracting policies	10%
11	Income derived from public shows	25%
12	Films and video tape for cinemas, television, video clubs and rights for cable television	25%
13	Any other operating income not mentioned in the previous numerals	10%

In this case, the Honduran company that makes the payment will be in charge of making the corresponding withholding and informing the Tax Authority.

Municipal Tax of Industry and Commerce

It is the tax that every company pays, based on the commercial activity that it carries out, that is detailed and classified by means of the Tax Plan of each municipality.

Every year, companies must present, by January 31 of each year, a Sworn Declaration of Industry and Commerce Tax, with a projection that will be related to the income that the company obtained the previous period.

Over this amount, the calculation of the tax to be paid will be made, taking into account the trading category, the domicile of the company, the number of employees, among others.

Also, from this declaration, the calculation of the following rates will be made:

- Toilet train
- Fire rate
- Environment

In addition to the mandatory payment of this tax, it is especially important because, if the declaration is not presented, nor the corresponding payments are made, the business operation permit, required for the correct operation of the company, is not issued.

Sales Tax

This tax is applied, to products and services, and is applied in a non-cumulatively way at the import stage and at each stage of the sale of goods or services in accordance with the provisions of the Law of ISV and its Regulations.

The general tax rate is 15% on the value of the tax base of imports or the sale of goods and services subject to it and 18% applied to alcoholic beverages, beers and cigarettes as well as business class air tickets.

This tax must be declared monthly through a Sworn Sales Declaration and must be made known to the Treasury, in the period of the first 10 calendar days of the following month in order not to be subject to sanctions.

All establishments must always record the value caused by the Sales Tax, even in cases where this value is zero.

Capital Gains Tax

It is the tax that occurs when making a sale of a good makes a profit.

To calculate this, the sale value must be subtracted from the register value of the asset, and this amount will be the tax base, that is, 10% will be calculated on it, which must be paid within 10 days. following the sale of the property to the Tax Authority.

This tax won't apply when the company's normal business operations, consists on the sale of properties.

Tax on Dividends

Income received by individuals, residents or domiciled in the country as a dividend, any other form of profit-sharing from reserves, as well as dividends distributed to individuals by companies covered by special regimes are taxed at 10%.

Security Rate

In accordance with the provisions of the Population Security Law (Decree 275-2013), a special contribution will be made for pro-population, for the security of financial transactions, a special rate of HNL 2 per thousand or per thousand fractions must be applied to the taxable base, which is the amount of the transaction, it is applied to all taxed transactions except remittances from abroad, savings accounts of individuals and legal entities whose average balance is less than HNL 120,000.

Property Taxes

Real Estate Tax

Property tax in Honduras is paid municipally no later than August 31 of each year.

Currently, a general discount of 10% is given for advance payment when this payment is made before April 31.

The tax is based from the registered value of the property, which will depend on the area, municipality and department, since it will depend on whether the property is considered to be located in a rural, urban area, among others.

Tradition Tax

For the sale of real estate, the payment of the Tradition Tax will be executed, in accordance with the provisions of the Property Law. Said tax will be calculated according to the following:

- On the first HNL 1, 000 a payment of HNL 200
- On the following, HNL 1.5 for each thousand



9. Funding Alternatives (Debt x Equity)

The Honduran Central Bank oversees and regulates the banking system. International banks operating through branches or special purpose offices. The Central Bank is responsible for the monetary policy, which is approved on a yearly basis.

The supervisions of banks, insurance companies and financiers are in charge of the National Banking and Insurance Commission (CNBS) and enforces the respective banking laws.

Generally, the central bank is responsible for setting interest rates as guidance for the private banking system and enforcing exchange controls and similar regulations.

Commercial banks

The banking system in Honduras is well developed, composed of a number of private institutions that are regulated by the National Banking and Insurance Commission (CNBS).

There is no offshore banking in Honduras.

List of Banks

Central Bank

- Banco Central de Honduras

Commercial Banks

- Banco Atlántida
- Banco de los Trabajadores
- Banco de Occidente
- Banco del País
- Banco Hondureño del Café

- BanRural
- Citibank de Honduras
- Ficensa
- FICOHSA
- Promérica Foreign banks
- BAC Honduras
- Da Vivienda
- LAFISE

Among the alternatives for financing in Honduras are the following:

- Bank loans for companies
- Loans with a movable or immovable lien

The financial institutions in the country have specialized departments for the attention and service of the needs of small and medium-sized companies, in whose efforts, fewer limitations are established for the granting of smaller loans.

Additionally, there are other alternatives, which can be explored according to the amount required, through:

- Financial
- Cooperatives
- Government development programs, to favor the micro-entrepreneur

10. Transfer Pricing



The applicable regulation is Decree 232-2011 containing the Transfer Pricing Regulation Law, its regulations (Decree 27-2015) and the Tax Code. It arises in the country with the objective of controlling transactions between related parties of an economic group. The principle of which the tax authority part is that the transactions between related parties should be carried out as if it were between

unrelated companies, respecting the current market price and in a field consistent with socioeconomic growth, receiving tax benefits and facilities for trade and national and international industries.

The following concepts are taken as essential elements for its applicability:

- That the company has a permanent establishment, that is, a fixed place of business where a natural or legal person residing or domiciled in another State carries out all or part of its activity in Honduras.
- The observance of the Principle of Full Competition, which treats commercial and financial operations between related or joint parties as if they operated as independent companies in a comparable situation, thus offering fair tax treatment between multinational companies and independent companies.
- That the companies are related or joint parties, that is, when:
 1. A natural or legal person participates directly or indirectly in the management, control or in the capital of another duly documented and legalized.
 2. The same natural or legal persons participate directly or indirectly in the direction, control or in the capital of another duly documented and legalized.

3. They are companies that individually constitute a decision-making unit, where one company is a partner of another.
 4. Direct or indirect commercial and financial operations are carried out, understood as indirect those that are intended to reduce the taxable income of the ISR, between active subjects resident not domiciled in the national territory and another based in another territory or jurisdiction classified as a tax haven.
 5. A natural or legal person in the country has a permanent establishment abroad.
 6. It is a company related to others with the same directors or administrators.
- **Transfer Pricing Study** is the transfer pricing study is the document that formalizes the test to determine if the price or result of a controlled operation or between related parties is market, must be presented with the presentation of the Tax return on Income.

Methods accepted in the country:

- Uncontrolled Comparable Price Method
- Resale Price Method
- Added Cost Method
- Profit Distribution Method
- Net Margin of the Transaction Method

- A different method will be accepted as long as it is shown that another of the mentioned ones cannot be used.

Operations to be observed:

- Operations on goods (purchase-sale)
- Operations to provide services or commissions
- Operations derived from the use or enjoyment of intangible assets
- Financing operations
- Commercial current operations
- Other operations determined by the Tax Authority

Sanctions

- Failure to submit the transfer pricing study in due time, at the time of the audit, failure to provide data, or to provide false, incomplete or inaccurate data, will be penalized with a fine of USD \$ 10,000.
- For declaring a lower tax base than that which would have corresponded, a fine of 15% calculated on the amount of the adjustment made by the administration; if also accompanied by any related infraction in the first paragraph, 30% or USD \$20,000 will be raised for both fractions.
- Any other breach will receive a fine of USD \$5,000.

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

Free Trade Regime

There are areas that enjoy a privileged Regime for the application of taxes, called Special Regimes, such as Free Trade Zones or tourism, which provide special incentives for those companies that are covered by said special regime.

In the case of companies covered by the Free Trade Zone regime, the following benefits are granted to:

- Exemption from the payment of customs taxes, charges, surcharges, internal taxes, consumption and other taxes and encumbrances of merchandise introduced into the area, which are directly or indirectly related to the custom, import and export operations
- Exemption from the payment of municipal taxes and contributions
- Exemption from payment of income tax for 15 years, extendable for 10 more years upon request

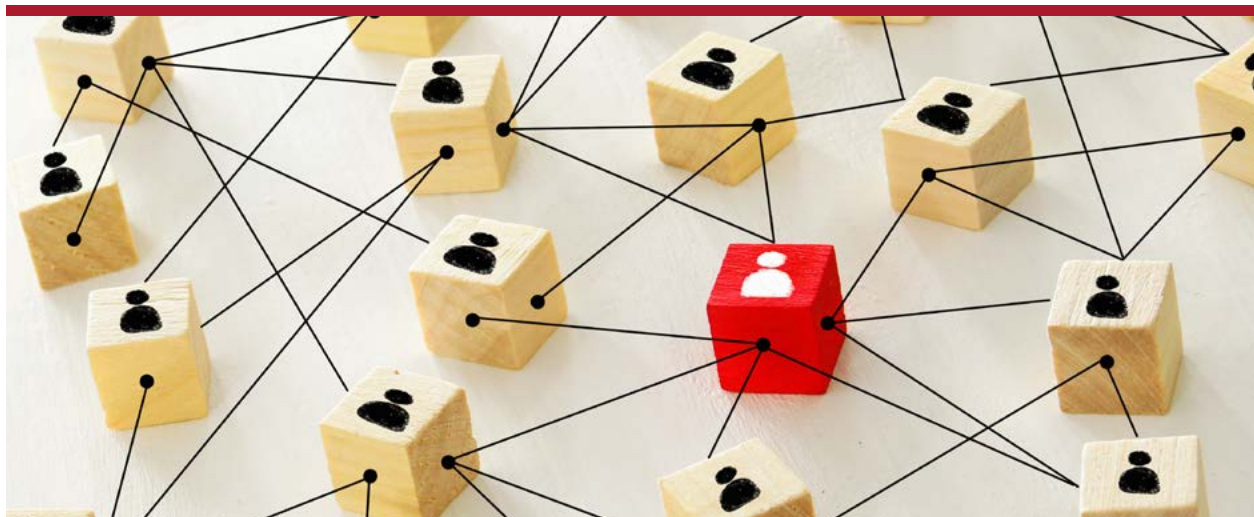
To operate under this regime, a permit must be requested from the Secretary of Economic Development, and the complexity of the process will depend on the figure that operates, which can be:

- Operator
- User Operator
- User

To be in this area, the activity of the company must be, among others, to carry out operations and activities to introduce, eliminate, store, manipulate, display, pack, unpack, buy, sell, exchange, manufacture, mix, transform, refine, distill, assemble, operate all kinds of merchandise, products and raw materials, packaging and other commercial effects.

Temporary Importation Regime (RIT)

Through Decree 37-1984 this regime was created and grants exoneration of the tax on net assets, Solidarity Contribution, sales



The benefits are granted to call center and outsourcing services establishments in Honduran territory.

tax at the time of importation and payment of customs duties, to does companies that work with primary materials to convert them to other products for exportation.

Call Center Regime

The benefits are granted to call center and outsourcing services establishments in Honduran territory. They will enjoy:

- The exemption from tariffs on all equipment, internal and consumption taxes and other taxes that are imposed on the importation of tools and equipment, office accessories and other goods that are directly related to the operations and execution of the activity
- Exemption from income tax on income obtained from the activity

The National Commission of telecommunications grants this authorization.

Tourism Regime

The Free Tourist Zone aims to promote the national and foreign investment within the territory so that its consequent activities are developed within a special regime and in a field consistent with socio-economic growth, security of people and goods,

sustainable development with protection of the environment and in harmony with the ecological issues, carrying capacity and the tourist vocation of the area.

Among its benefits are:

- The definitive introduction of goods, or services to the territory of the Free Tourist Zone by the beneficiaries is exempt from paying taxes or customs duties, import duties or special charge or surcharge taxes, sales tax on production, consumption or added value tax, as well as all kinds of internal taxes and the payment of consular or stamp duties.
- The temporary introduction or re-export of these merchandise, goods or services is exempt from all indicated taxes, duties and rights.

12.

Holding Company Analysis

The Commercial Code establishes the possibility for the partners or shareholders of a company to be a legal entity, so there is no impediment for a holding company to carry out its activity, provided that it is within the licit activities, and complies with the other requirements of Law.

Also, said companies may be national or foreign, since there is no limitation for their operation, all foreign companies enjoy the same treatment as Honduran companies, incorporated in the country, for this purpose they should only be incorporated as a foreign company, before the corresponding Trade Register.

13.

Tax Succession and Tax Penalties

There is no tax for successions.



Central Law, Honduras

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