

Overview

Honduras imposes corporate and personal income tax on its residents (including Honduran subsidiaries of foreign entities) in respect of income earned in Honduras. Non-residents who carry on business in Honduras or who are employed in Honduras are also subject to Honduran income tax.

Honduras is governed by the Principle of Territorial Income, this means you are only liable to pay taxes for earnings within the country.

All of the municipalities of Honduras impose municipal taxes on corporations and individuals residing or carrying on business within the municipality. Each municipality provides for certain modifications in the calculation of tax, including the provision of specific tax incentives.

Honduras imposes withholding on non-residents (10% or 25%) who receive dividends, certain interest payments, rents, royalties or management fees, among others. Honduras has no double-taxation treaty network.

In addition to income tax, the Honduran government imposes a sales tax of 15% or 18%. Furthermore, land transfer tax is also applicable in Honduras.

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Legal system

Honduras operates under a civil law system. The Honduran government is a constitutional democracy with a presidential system. The government, is divided into three branches or powers, legislative, executive and judicial. All three of them have the authority to bring forth an initiative of law. Laws are created and approved by the National Congress.

Taxation authorities

The Honduran Constitution establishes that the only entity empowered to collect taxes is the National Congress. This function is delegated to the Honduran Revenue Administration Service (*Servicio de Administración de Rentas - SAR*), a decentralized agency that possesses functional and administrative independence. It is responsible for controlling and verifying the administrative collection and audit of taxes. Additionally, municipalities have the authority to approve their own local taxation plans.

Business vehicles

Non-residents need to establish a Honduran business vehicle to carry on business in Honduras (with or without a Honduran permanent establishment). Honduran business vehicles are corporations or incorporated branches of foreign entities (which receive the same treatment as local entities).

Corporations

Corporations can be incorporated quickly, generally within a week or two, at which point, they are ready to operate. Corporations incorporated under Honduran law may be comprised of resident or nonresident shareholders, quota holders, or directors. Incorporated branches of foreign entities require a resident legal representative. The domicile of incorporation does not impact the corporation's income tax liability.

The establishment of a corporation does not require any capital to have been received by the corporation. However, in order to issue shares, a nominal amount of capital must be received by the corporation.

Financing a corporate subsidiary

Debt financing

Withholding tax implications

Honduran corporations are permitted to borrow funds from related or third parties without tax implications. Furthermore, there are no Honduran tax implications on the repayment of the principal amount of such debt. Interest payments and participating interest made by a Honduran resident corporation to a non-resident with which it deals at arm's length are subject to a 10% withholding tax.

Corporate income tax

Income tax rate

Corporate income tax on active business income is 25%.

Capital gains

A Honduran resident corporation (including a Honduran branch of a foreign corporation) is exempt from including capital gains in its taxable income.

Computation of taxable income

Taxable base

A taxpayer is subject to tax on its profits from carrying on its business. Profit is considered to be its revenue less its deductible expenditures.

Deductions

A taxpayer is generally permitted to deduct its current expenses in computing business income. As a general rule,

capital expenses are not deductible. However, there are specific exceptions to that rule, such as interest incurred for the purpose of earning income from a business or property and depreciation expense.

Income tax reporting

Honduran resident corporations are required to file an annual corporate income tax return. Corporate tax returns are due on April 30, for the last fiscal year. Late filing and late payment penalties apply. The tax may be paid in advance in 3 equal installments, due on June 30, September 30 and December 31. The last payment is made with the filing of tax returns due on April 30 of the next fiscal year. Late filing and late payment penalties apply.

Cross-border payments

Transfer pricing

Honduras's transfer pricing regime reaches any operation performed between Honduran resident entities with related non-resident entities. Local regulation permits the SAR to impose a transfer pricing adjustment in respect of a transaction that is made in conditions contrary to transfer pricing regulations. Also, Honduran taxpayers are required to maintain contemporaneous documentation in respect of transactions subject to the transfer pricing rules.

Additionally, the Honduran tax authority allows taxpayers the request of an Advance Price Agreement (APA) to establish the values for the commercial or financial transactions performed with related parties prior the implementation of such transactions and for a specific time. Honduran taxpayers are also required to maintain contemporaneous documentation in respect of transactions subject to the transfer pricing rules.

Withholding tax on passive income

Payments made by a resident of Honduras to a non-resident in respect of certain types of interest payments, rents, royalties, dividends, management or administration fees, among others are subject to withholding tax at rates of 10% or 25%.

Withholding tax on services fees

Where any resident makes a payment to a non-resident of Honduras in respect of services performed in Honduras or abroad, the payer must withhold 10% or 25% of the gross payment on account of income tax.

Payroll taxes

Honduran Institute for Social Security (*Instituto Hondureño de Seguridad Social - IHSS*)

Employers and employees of local corporations are liable to make contributions to the IHSS. The ceiling for income subject to deductions is approximately USD 400, increasing around 5% each year. Employers pay a contribution of 8.7%, and employees are withheld a 5% contribution.

Honduran Pension Plan or Private Contribution Regime. (Régimen de Aportaciones Privadas - RAP)

Employers and employees of local corporations are liable to make contributions to the RAP. The ceiling for income subject to deductions is approximately USD 1,100, increasing around 5% each year. Employers pay a contribution of approximately 4%, and employees are withheld a 1.5% contribution. Special formulas apply for this calculation.

National Institute for Professional Education (*Instituto de Formación Profesional - INFOP*)

Corporations or legal entities are liable to contribute 1% of the total amount of salaries and accrued wages to INFOP.

Indirect taxes

Sales tax

Sales tax is a value-added tax imposed on the final domestic consumption of most goods and services supplied by entities in Honduras.

The current sales tax rate is 15% or 18%, however this tax is not imposed on all supplies or services. Exempt products and services include exported goods and services, prescription drugs, medical devices, basic groceries, health care services, educational services and most financial services.

Land transfer tax

A transfer tax is payable on any acquisition of real property. The transfer tax is payable regardless of whether the acquisition is in respect of a legal or a beneficial interest in real property. The rate of land transfer tax is 1.5% of the total value of the transaction or the market value of the real property.

Your Key Contacts

Global



Carlos Fernández

Associate, Tegucigalpa

D+504 2232 5551

M+504 9926 7193

carlos.fernandez@dentons.com



Daniel Sánchez

Associate, Tegucigalpa

D+504 2232 5551

M+504 9874 1628

daniel.sanchez@dentons.com



Arturo Zacapa

Managing Partner,

Tegucigalpa

D+504 2232 5551

M+504 9970 5122

arturo.zacapa@dentons.com