



## ▣ DOING BUSINESS IN HONDURAS

### 1. Fact Sheet

#### Geography

Location	Honduras is located in the middle of Central America, bordering the Caribbean Sea, between Guatemala and Nicaragua and bordering the North Pacific Ocean, between El Salvador and Nicaragua
Area	Total area 112,098 sq km
Land boundaries	Total 1520 km, divided between Nicaragua 922 km, El Salvador 342 km and Guatemala 256 km.
Coastline	The 820 -kilometers northern boundary is the Caribbean coast
Climate	The climate varies from tropical in the low lands to temperate in the mountains
Terrain	mostly mountains in interior, narrow coastal plains
Time zone	CST (UTC-6)

#### People

Population	7,810,848
Ethnic groups	90% Mestizo, 7% Amerindian, 2% Black, 1% White
Religion	Catholic 80%, Protestant 15%, Others 5%
Language	Spanish (official language)

#### Government

Country name	Republic of Honduras
Government type	Democratic Constitutional Republic
Capital	Tegucigalpa



Administrative divisions	Honduras is divided into 18 departments Atlántida, Choluteca, Comayagua, Copán, Cortés, El Paraíso, Francisco Morazán, Gracias a Dios, Intibucá, Islas de la Bahía, La Paz, Lempira, Ocotepeque, Olancho Santa Bárbara, Valle Yoro, Colon
Political situation	Stable

### **Economy**

GDP – per capita	Purchasing power parity of \$4,275
GDP – real growth rate	7%
Labor force	2,991,000
Unemployment	28% (1.2 millions)
Currency (code)	HNL (L)

## **2. Business Entities and Accounting**

Honduran Code of Commerce recognizes six types of corporate legal corporations.

- General Partnership Corporation (*Sociedad Colectiva*)
- Commandite Simple Corporation (*Sociedad en Comandita Simple*)
- Limited Liability Partnership Corporation (*Sociedad de Responsabilidad Limitada*)
- Limited Corporation (Sociedad Anónima)
- Commandite limited partnership by shares Corporation (Sociedad en Comandita Simple por acciones)
- (Cooperative Corporation) Sociedad Cooperativa

All these corporations may be of variable capital



## **General Partnership Corporation**

The General Partnership Corporation is formed by a group of investors who decide to establish a company jointly and severally liable, on a personal level for the company's dealings. The partner's name must be mentioned in the entity's name. The Company name will be formed under the name of one or more partners, and when it does not appear the words and company, and associates or and brothers, will be added

Main characteristics of this type of company are:

- Shares cannot be transferred without the approval of all the partners and requires the amendment of the bylaws.
- Bylaws cannot be modified without the call of all partners
- The company is administered by all partners by default, but usually a controller is appointed to supervise day to day operations

## **Commandite Simple Corporation**

The Comandita Simple Corporation is very similar to the General Partnership Corporation except that this type of company must have two shareholders. The "comanditado" Partners are jointly and severally liable on a personal level. To the contrary, the "comanditario" partners are not liable for the entity's transactions up to the value of the shares.

There are two types of Commandite Society: The Commandite Simple Corporation and the "Commandite limited partnership by shares corporation", they are very similar except for the fact that the Commandite by shares has documented certificates that are negotiable instruments.



### **Limited Liability Partnerships Corporation**

The “Limited Liability Partnership Corporation” or “SdeRL” for its abbreviations is the simplest capital corporation under Honduran Law. Some characteristics of this company are:

- A minimum of 2 partners and maximum of 25 are required
- Co-ownership of shares is allowed
- Shares must have a value of at least \$250.00
- Partners liable only for the value of each share
- Partners themselves may administer the company or appointing a controller
- Partners are not limited by nationality
- Shares are not negotiable instruments
- Sales or transfer of share must be approved by the Board of Shareholders

### **Limited Corporation (Sociedad Anónima)**

The Limited Corporation or “S.A” for its abbreviations is a more complex capital entity. Main characteristics are:

- There are no limitations regard the number of stockholders
- There is a minimum capital to incorporation of \$1,250.00
- Stockholders liable only for the value of each share
- Administration is managed by the board of directors
- Shares are negotiable instruments
- Partners may incorporate the company even from abroad through the assistance of an attorney



### **Commandite limited partnership by Shares Corporation (Sociedad en comandita por acciones)**

Are composed of one or more general partners who respond subsidiary, unlimited joint and severally of the social obligations and one or more limited partners who are only obliged for the payment of their shares.

Some characteristics of this type of companies are:

- The capital shall be divided into shares, one tenth of which, at least must be subscribed by the partners , who cannot transfer them without the consent of all partners and the absolute majority of all partners.
- The commandite limited partnership by shares , maybe under a name which will be formed with the names of one or more general partners followed by the words “and company” or its equivalent when they are not included.
- The words “ S en C “ will be added to the trade name.

### **Cooperative Corporation (Sociedad Cooperativa)**

The Cooperative Corporation will provided its activities exclusively on behalf of its partners, will operate under a company name and its capital, which is variable shall be divided into equal shares. Partners limit their responsibility to their corporate transactions to the amount of shares under their name.

Some characteristic of this type of companies are:

- To establish a cooperative corporation , the number of partner shall exceed twenty.



- Depending on the type of cooperative, the members must be producers, consumers, providers or users of the products or services offers by the cooperative.

## **Accounting and Audit Requirements**

### **Books and Records**

Regulations on the necessity to keep books and records are mandatory, the guiding institution in this matter is the Honduran Public College of Accountant (Colegio de Contadores Públicos de Honduras). Companies are obliged to maintain books and record all of transaction. Books must be presented before fiscal authorities and Commerce Public Registry.

### **Financial Reporting**

All companies must prepare annual financial statements which must be audited by an independent public accountant. In certain cases, financial statement must be filed with the regulatory and tax authorities, together with the auditor's report.

Content of financial statements include:

- A balance sheet
- An income statement
- An analysis of expenses
- A statement of changes in shareholder's equity
- A statement of cash flow



## **Accounting Principles**

Honduran Public College of Accountant recently approved a motion of incorporating the International Financial Reporting Standard (IFRS). Such incorporation will be performed in a period of five years. During this period companies are obliged to change their records from General Accounting Principle practice to IFSR.

### **3. Finance and Investment**

#### **Exchange Control**

The official exchange rate is currently held at L19.0274 Lempiras for USD\$1.00 since 2005. In year 1994, the Central Bank established an auction system to regulate the allocation of foreign exchange more tightly and improve transparency of foreign exchange transactions. Commercial banks are now required to sell 50% of repatriated foreign exchange earnings to the Central Bank each night.

#### **Banking and Sources of Finance**

The financial system is comprised of 16 commercial banks, two banks controlled by the government, 11 insurance companies, 1 exchange house, and 9 finance companies. With the exception of the governing controlled banks, the rest of the system grants all type of loan and services, covering: industry, credits cards, agriculture and personal.

The National Commission of Bank and Insurance is the main estate entity in charge of supervising the banking system.



## **Tariffs**

Honduras's tariffs on most goods from outside the Central American Common Market (CACM) are currently within the zero percent to 15 percent range. With CAFTA-DR in place about 80% of U.S industrial and commercial goods enter the country duty-free, with all remaining tariffs phased out over ten years. This benefits is broadly use for Apparel and Textile regime.

## **Foreign investment incentives**

Foreign investors receive the same treatment as national investor, opportunities, rights and obligations.

Tourism projects and Manufacturing are the main sector promoted for investments, they offer the following advantages:

Income tax exoneration.

Exoneration of import duties.

Municipal taxes.

Temporary import regimen for investor who need to export (Regimen de importación temporal).

## **4. Employment Regulation and Social Security**

### **● Entry visa and work permit requirements**

Temporary work permit can be obtained for a 3 month-period. In order to apply for work permit or residency the following documents must be presented:



- Passport, valid for at least one year from the application
- Birth certificate
- Health certificate
- Fill a work permit application
- A sworn stating to respect Honduran laws
- Ministry of labor authorization

- **Hiring local employees**

According to labor regulations Honduras companies are obliged to hire at least 90% of nationals, in addition, 80% of monetary payroll must be received by Honduran employees. Contracts must be in writing and verbally only in exceptional cases. In case a company needs to employ foreign employees is obliged to report the ministry of labor the quantity of foreigner in its payroll and take a course of action to train Honduran employees in the areas needed that need special skills.

- **Trade Unions**

Labor Code in Honduras stipulates the right of employees to establish trade unions. Employers are obliged to respect the establishment and functioning of employees for this exercise during this process employee cannot be fired. In order to get legal representation trade unions must be registered with Ministry of labor with a minimum of 30 employees. It is prohibited for the Ministry of Labor to approve two unions in the same company.



## **Social Security System**

From gross salary, employers contribute 7.2%, employees 3.5%, and the estate 1% for a total of 11.52%. Employers are obliged to include employees to the social security system only if the number of employees is superior to 10 employees. Withholdings are paid to social security on monthly basis. Certain areas of the Republic of Honduras are not covered by the social security system.

## **5. Taxation**

- **Corporation Income Tax.**

Net income is determined by the company gross income minus legal deduction. Current tax rate is 25%. All companies must also pay a Temporary Solidarity Tax; this tax is equal to an additional 5% over net taxable income exceeding 1 million Lempiras. Period fiscal year ends December 31st of each year.

- **Individual Taxation**

Taxes on employees vary depending on the monthly salary. Employer must withhold between 15% and 25%.

Salaries not reaching HNL 70,000 Lempiras are exempt from paying income tax.

- **Sales Tax**

Under Honduran law, the sale and import of products, and services must pay a 12% standard rate based on the value of such prices.