



▣ DOING BUSINESS IN NICARAGUA

1. Fact Sheet

Geography

Location	The country is bordered by Honduras to the north and Costa Rica to the south. The Pacific Ocean lies to the west of the country, the Caribbean Sea to the east
Area	130,373 km ²
Land boundaries	Costa Rica and Honduras
Coastline	Caribbean sea and pacific ocean
Climate	There are two seasons: a green season, from May to December, and a dry season, from January through April.
Terrain	extensive Atlantic coastal plains rising to central interior mountains; narrow Pacific coastal plain interrupted by volcanoes
Time zone	UTC/GMT -6

People

Population	Nicaragua has a population of 5,570,129 population is 54% urban
Ethnic groups	69% mestizo, 17% white, 9% black and 5% Amerindian; this fluctuates with changes in migration patterns.
Religion	Catholic 70%, Protestant 25%, Others 5%
Language	Spanish (official language), English is also spoken a recognized officially for RAAN and RAAS.

Government

Country name	República de Nicaragua
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Government type	Presidential Representative Democratic Republic
Capital	Managua
Administrative divisions	The Republic of Nicaragua is divided into 15 departments (departments) Boaco, Carazo, Chinandega, Chontales, Estelí, Granada, Jinotega, León, Somoto, Madriz, Managua, Masaya, Matagalpa, Nueva Segovia, Rivas, Rio San Juan and two self-governing regions (regiones autónomas) RAAN and RAAS
Political situation	

Economy

GDP – per capita	US\$2,698 (est.)
GDP – real growth rate	3%
Labor force	2 millions
Unemployment	17%
Currency (code)	Córdoba (C\$)

2. Business Entities and Accounting

Forms of Business Enterprise

Nicaragua Code of Commerce recognizes a wide range of organizations all of them with limited liabilities, the principal legal entities are:

- Corporations or Stock Company (*Sociedad Anónima, S.A*)
- Limited Liability Partnerships (*Sociedad Colectiva*)
- Branches (*Sociedades Extranjeras*)
- Commandite (*Sociedad en Comandita*)



- Cooperatives (*Cooperativas, by special law.499*)

Every company needs a legal representative domiciled in the country. Also, each company must be registered with commercial Public Registry (Registro Público Mercantil), tax authorities (Dirección General de Ingresos, DGI), thus becoming a national company and taxpayer regardless of the nationality of its owners or offices. Foreign may act as director or partners.

The corporation or stock company is the most common form of business entity in Nicaragua.

Corporation or Stock Company

In order to establish a stock company two organizers must attend before a public notary to obtain a deed of incorporation, then this document must be registered in the Commercial Section of the Public Registry. At least two organizers must set up the new company. There are no nationality requirements for partners. Stock companies have no capital or paid-in requirement.

The authorized number of shares must be set at par value in local currency and figure in the deed of incorporation. Since its formation stock companies are legally obliged to accumulate a 10% reserve based on its capital, no less than 5% of net profits is permitted to achieve this purpose.

Partners may establish in the deed of incorporation the privileges assigned to each share. (Voting rights, denominations, preferences, restrictions) can also be decided through the board of partners.

In addition, Nicaragua Code of Commerce states the following:



- The Shareholders meeting is the ultimate authority in the corporation
- Ordinary meeting must be held as least once a year for approval or rejection of: financial statements, appointment or dismissal of members of the board of directors, and other issues necessary in the meeting agenda.
- A special meeting may be called by 5% of the total capital
- Management is lead by a board of directors who must be individuals, stock holders or representatives, with no nationality requirements. Director may be appointed in the dead of incorporation or later in shareholders meeting.
- The corporation must name at least one local representative agent, who must be Nicaraguan national or permanent resident to legally represent the corporation.

Limited Liability Partnerships

As well as the stock company, limited liability partnership has independent legal existence and limited liability up to the contributions of its owners. Limited Liability Partnerships come to exist though a deed of incorporation before public notary and later on being register with the Commercial Section of the Public Registry.

Capital may be public or private, national or foreign. One significance aspect is that the name of the company must include either the names of all partners or the name of at least one partner along with the words “y compañía” (“and Company”). To limit the liability of the partners, the name of the company must finish with the word “limitada”.

Partners meeting may be held when desired by the partners in or outside the country when so expressed in the dead of organization.



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Management may be structured in any way desired by the partners and expressed in the deed of incorporation or partners minutes.

Branches

Foreign companies can be established in Nicaragua proving a legal representation in the country. This representative must have a general power of attorney in order to properly respond before national authorities in case of being called. This representative will be responsible for registering the branch in the Commercial Section of the Public Registry.

The representative must present at such instance the following:

A resolution of the foreign company in which the establishment of the branch was decided upon and the purpose of operations.

The power of attorney or proxy of the foreign company in order to demonstrate that broad powers are being granted to him/her to legal represents the branch (by law, this power of attorney “Poder Generalísimo” cannot be limited except for the disposition of real estate and amount.

The foreign investor establishes the branch by presenting the above documents to the Commercial Registry, legalized by the appropriate Nicaragua consulate abroad. The brand office must then register with tax and municipal authorities.

Commandite

There exist two types of commandite companies: the *commandite by shares*, in this case the partners are liable only for the amount of their shares, and *commandite simple*, in this



case partners are unlimited liable for the company obligations regardless of their shares amounts.

There are two types of partners: administrators, who have unlimited liability and limited or silent partners, who are liable only for the amount of capital contributed.

The attributes of the stock company are applied to this type of company.

Cooperatives

Cooperatives are companies establish for social developments. There exist a wide variety of cooperatives: housing, transportation, communal credits, agriculture, fishing and any other social interest.

Partners in Cooperatives companies have limited responsibility up to the amount of their share.

The name of the company must bear the name “cooperative” (“Cooperativa”) followed by the letters R.L which means (Limited Responsibility). The number of partner is unlimited.

The dead of organization must contains, amount other aspects, the following basic information:

- The establishment of the Administration Personnel
- The reason for the establishment of the cooperative and the activity expected to develop
- Partners’ rights
- The number of partner who can call an ordinary or extraordinary meeting



- Reserves of capital and their use
- The educational regime for active partners
- Mergers rules

Body of controllers (Cuerpo de Vigilancia) who will be in charge of supervising the administration operations.

Accounting and Audit Requirements

Books and Records

According to Nicaragua regulations all type of legal entities or companies are obliged to keep accounting books and records. No exceptions are made for this matter.

Legal Books (Libro Dario y Mayor) must be presented to fiscal authorities on annual basis. These books must be bound and prenumbered for internal control matters. Books are approved by Fiscal authorities before company begins operations.

Financial Reporting

All companies must prepare annual financial statements. Every year financial statements must be submitted along with annual income tax declaration

Accounting and auditing principles are set the Nicaraguan College of Public Accountants.

The contents of financial statements:

- Balance sheet



- Income Statement
- Statement of Shareholder equity
- Statement of Cash Flow
- Notes to Financials

Accounting Standard

Nicaragua College of Public Accountants accepted the ruling of International Financial Reporting Standard (IFRS), however, these Accounting Standard will have one year exception before their full application. Companies are encouraged to account according to these new set of standards.

Generally accepted audit principles are compatible with International Standard on Auditing (ISAs).

3. Finance and Investment

Exchange Control

National or foreign bank account can be held in the country or outside; the company may choose the currency that best fit its purposes.

The national currency is the córdobas; its exchange rate with respect to the US dollar is defined according to a 6% annual sliding. Every month in the print media, the Central

Official daily exchange rates are published by the Bank of Nicaragua. No limitations are imposed to the import or export of capital



Banking and sources of finance

There are six private banks and two finance companies. These banks ensure the country banking service granting all type of loans and services, covering: industry, credit cards, farming, agriculture and personal.

Every bank and finance companies are supervised by the Superintendency of Bank and Other Institutions (SIB), this institution works closely with the Nicaragua National Bank in order to maintain the stability of the exchange rate and bank transactions. The SIB (“La Super” as it is popular known) main objective is to protect the interests of public depositors. Administrative procedures are in force in case that any citizen presents a complaint of any bank or finance company.

Tariffs

Nicaragua taxed imports according to the Centro America Unified Custom Code Regulation (Código Arancelario Centroamericano), once imported goods are subject to 15% standard rate. 0% rate applies for SAC (Centro America Tariff Code)

Importer may obtain exoneration of the 15% standard rate if the import applies for the temporary regime

According to the above mentioned Code a import duty (Derecho Arancelario a la Importación, DAI) applies for imports coming to the country



Foreign investment incentives/restrictions.

Foreign investors have the same rights and obligations as national investors and there is no limitation to foreign investment.

The law for promotion of foreign investment guarantees the following for investors: free access to purchase and sales of foreign currency, free convertibility, the ability to transfer capital abroad.

The purpose of the foreign investment law is to promote employment and contributing to the country's economic and social development.

Investors have the following incentives:

- Fiscal concessions
- Special exemptions in sectoral law on Free Trade Zone and Tourism
- Temporary admission
- Accelerated depreciation of assets
- Export incentives

4. Employment Regulation and Social Security

- **Entry visa and work permit requirements**

Temporary work permit must be required for a six month period. For this, medical certificate, birth certificate, penal background is necessary. For a company to ask for these permissions, it is required a Nicaraguan domiciled company. Immigration Nicaragua Division will grant visa for a range period of 30 to 90 days depending of the origin of the



immigrant and international agreement with the foreign country. Visa range of period is extendable.

- **Hiring local employees**

According to labor regulations Nicaragua companies are obliged to hire at least 90% of nationals. It is prohibited to hire Nicaraguan employees (sign contract in Nicaragua or verbally) to perform their work outside of the Republic, in exceptional cases, the Ministry of Labor will authorize such permits. Special technical issues are always a good cause for hiring foreign employees. Foreign employees are protected by law as to receive the same treatment as nationals.

- **Trade Unions**

Labor Code in Nicaragua 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 20 employees.

Trade unions are most frequent in construction and agriculture sector than in commercial sector.

- **Social Security System**

Employers must include their employees to the social security system within the first three days since the beginning of the labor relationship. Every person having reached 16 years old is to obtain a social security number. After this, employers must send a payroll report to social security authorities (Instituto Nicaragüense de Seguridad Social) on a monthly basic. From the gross salary, employers contribute 15% and employees 6.25%. In rural areas rates varies to 9% and 4.25% respectively.



Employers not sending payroll reports on a timely basis will be charged a 3% of total withholdings. Withholdings are paid to social security on monthly basics.

5. Taxation

- **Corporate**

Companies are subject to a 30% income tax rate. Tax base to calculate the 30% payments is determined by subtracting all deductible expenses from gross income (net rent). If financial statements bring out negative results taxpayer must pay an annual definitive minimum income tax payment base on total assets at the end of the fiscal period. In case of positive results, taxpayers will select the higher between 30% income tax rate and 1% of total assets.

Exceptions exist as to the minimum payment as follows:

- For companies during the first tree years of operations
- For companies will assets less than US\$150,000.00
- Companies having inactive periods
- Companies presenting any circumstance or problems due to force majeure

Trade losses are permitted to be offset against the profits of the next tree years upon requirement of being accounted for separately for each year.

Update: Beginning year 2010 definitive minimum payment tax base will be gross income.



- **Individual Taxation**

Individuals whose annual income exceeds C\$50,000 (\$2,415) are subject to income tax withholdings. The tax to be paid will be calculated according to the following progressive scale.

(Expressed in Córdoba)

From	To	Tax Base	% applied	To income over
1.00	50,000.00	0.00	0%	0.00
50,001.00	100,000.00	0.00	10%	50,000.00
100,001.00	200,000.00	5,000.00	15%	100,000.00
200,001.00	300,000.00	20,000.00	20%	200,000.00
300,001.00	500,001.00	40,000.00	25%	300,000.00
500,001.00	>500,001.00	90,000.00	30%	500,000.00

- **Value Added Tax**

A standard 15% rate applies for all purchases and services obtained in the country, as well as, imports are also taxed with the same rate. As VAT taxes, this tax is levied on any value that is added to a product, it is neutral with respect to number of withholders involved in the process. Each one of them has the right to deduct the amount previously paid. General exceptions exist for basic basket products: rice, beans, vegetables, used products, and others.