

DOING BUSINESS

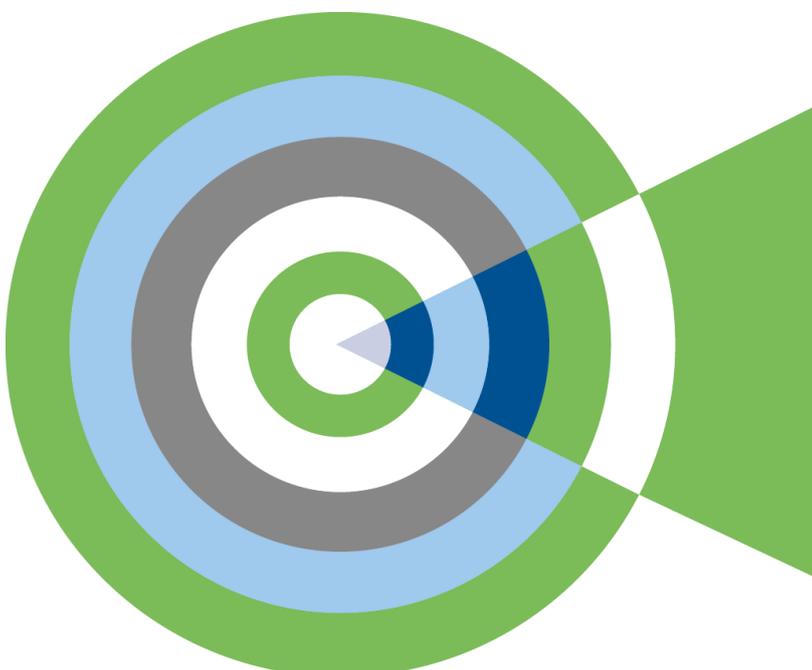
IN NICARAGUA



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Nicaragua has been provided by the office of UHY representatives:

UHY PÉREZ & CO.

Semáforo Villa Fontana 300 metros al este, 100 metros al Sur
Edificio Escala 4to piso Suite 4B
Managua, Nicaragua

Phone +505 22669726
Website www.uhy-ni.com
Email mtellez@uhy-ni.com

You are welcome to contact [René Pérez \(rperez@uhy-perez.com\)](mailto:rperez@uhy-perez.com) for any inquiries you may have.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at March 2020.

We look forward to helping you do business in Nicaragua.

2 – BUSINESS ENVIRONMENT

DEMOGRAPHY

According to the National Development Information Institute (INIDE), the estimated population in Nicaragua to date is 6.45 million people, of which 51% are female and 49% male.

24% of the Nicaraguan population is located in the capital city of Managua. Nicaragua is currently the fourth most populous nation in Central America.

Approximately 76% of the Nicaraguan population is in the age range to work formally. In recent years, more than 20,000 professionals have entered the labor market.

TABLE 1

Population statistics

POPULATION	6,203,441 MILLION INHABITANTS (JULY 2020 EST.)
Growth Rate	0.96%
Male population	1,770,678
Female population	3,179,334
Rural population	41%
Urban population	59%

The data in the table below (from the 'CIA World Fact Book) gives a segmentation of the Guatemalan population by age group:

TABLE 2

2020 population estimate by age group

AGE	PROPORTION
0–14 years	25.63%
15–24 years	19.51%
25–54 years	42.41%
55–64	6.63%
65 years and over	5.82%

The median age in 2020 was estimated to be as follows:

- Both sexes – 27.3 years
- Male – 26.4 years
- Female – 28.2 years

Other population indicators are as follows:

- Birth rate – 17.1 births / 1,000 population (2020 est.)
- Death rate – 5.2 deaths / 1,000 population (2020 est.)

- Net migration rate – -2.4 migrant(s)/1,000 population (2020 est.)
- Rate of urbanisation – 1.45% annual rate of change (2015-20 est.)

CULTURE/ETHNICITY

- Nationality – Nicaraguan
- Ethnic groups – mestizo (mixed Amerindian and white) 69%, white 17%, black 9%, Amerindian 5%
- Religions – Roman Catholic 50%, Evangelical 33.2%, other 2.9%, unspecified 13.2%, none 0.7%
- Languages – Spanish (official) 95.3%, Miskito 2.2%, Mestizo of the Caribbean coast 2%, other 0.5% (2005 est.).

GEOGRAPHY

Nicaragua is in Central America, bordering both the Caribbean Sea and the North Pacific Ocean, between Costa Rica and Honduras.

- Border countries – Costa Rica 313 km, Honduras 940 km.
- Area – total 130,370 square km
 - Land 119,990 square km
 - Water 10,380 square km
- Climate – tropical in lowlands, cooler in highlands
- Terrain – extensive Atlantic coastal plains rising to central interior mountains, narrow Pacific coastal plain interrupted by volcanoes.
- Administrative Divisions – Nicaragua is divided into 15 departments ('departamentos') and sub-divided into 153 municipalities ('municipios').
- Natural Resources: Gold, silver, copper, tungsten, lead, zinc, timber, fish.

TRANSPORTATION AND PORTS

- Airports – 12 (paved runways)
- Pipelines – oil 54 km (2013)
- Roadways – 23,897 km
- Waterways – 2,220 km (navigable waterways as well as the use of the large Lake Managua and Lake Nicaragua; rivers serve only the sparsely populated eastern part of the country) (2011)
- Ports and Terminals – Bluefields, Corinto

Ground Transportation – the most common way of getting around is by bus or car. To move from one destination to another in the same or different regions, in Nicaragua there are various means of transportation available, collective and individual, which include urban or intercity (or interlocal) buses, taxis, motorcycle taxis and caponeras (bicycles with passenger area).

City buses generally don't have many amenities across the country. The most commonly observed units in the city of Managua are yellow buses (formerly school buses), among others. In other cities, this service is also provided by covered trucks with passenger areas.

- By Air – Nicaragua's airlines offer non-stop services to the various departments
- Boats – ferries are available in certain regions, such as Ometepe.

ECONOMY

Nicaragua, the poorest country in Central America and the second poorest in the Western Hemisphere, has widespread underemployment and poverty. GDP growth of 4.5% in 2017 was insufficient to make a significant difference. Textiles and agriculture combined account for nearly 50% of Nicaragua's exports. Beef, coffee, and gold are Nicaragua's top three export commodities.

The Dominican Republic-Central America-United States Free Trade Agreement has been in effect since April 2006 and has expanded export opportunities for many Nicaraguan agricultural and manufactured goods.

In 2013, the government granted a 50-year concession with the option for an additional 50 years to a newly formed Chinese-run company to finance and build an inter-oceanic canal and related projects, at an estimated cost of \$50 billion. The canal construction has not started.

- Official Currency – Córdoba
- Currencies – Córdoba (C\$), US dollar (USD), others allowed
- Fiscal Year – calendar year
- Exchange rates – córdobas per US dollar: 30.11 (2017) 28.678 (2016), 28.678 (2015) 27.257 (2014), 26.01 (2013)
- GDP (purchasing power parity): USD 36.4 billion (2017 est.)
- GDP (official exchange rate): USD 13.81 billion (2017 est.)
- GDP - real growth rate: 4.9% (2017 est.)
- GDP - per capita (PPP): USD 5,900 (2017 est.)
- GDP - composition by sector: agriculture 15.5%, industry 24.4%, services 60% (2017 est.)

*For more information visit:

- www.bcn.gob.ni (exchange rates)
- <http://pronicaragua.gob.ni/>

GOVERNMENT

Country name:

- Conventional long form: Republic of Nicaragua
- Conventional short form: Nicaragua
- Local long form: República de Nicaragua
- Local short name: Nicaragua

Government type: Constitutional democratic republic

Capital: Managua

Geographic coordinates: 9' 3" N, 16' 6" W

Time difference: UTC-6 (1 hour behind Washington, DC during Standard Time)

Administrative Divisions: 15 departments (departamentos/singular=departamento); Chinandega, León, Managua, Masaya, Carazo, Granada, Rivas, Nueva Segovia, Madriz, Estelí, Jinotega, Matagalpa, Boaco, Chontales, Río San Juan; and 2 autonomous regions; Región Autónoma del Caribe Norte / Bilwi (Puerto Cabezas), Región Autónoma del Caribe Sur / Bluefields

Independence and National holiday: 15 September 1821 (from Spain)

Nicaraguan Political Constitution: Approved on January 21, 1948 and Published in La Gaceta, Official Gazette No. 16 of January 22, 1948, The Nicaraguan Constitution guarantees the judiciary an independence that allows it to fulfill both functions.

Legal System: Executive, Legislative, Judicial and Electoral.

BUSINESS PROTOCOL IN NICARAGUA

INITIAL CONTACT

Nicaraguan companies are mostly individually or family owned, they are companies closed to the investment of strangers, so trust is the starting point to give rise to negotiations, you must earn the trust of your interlocutor.

You should keep in mind that during the periods of Easter and Christmas some private and public companies do not work, so it is recommended not to schedule your business appointments at these times. You must request them by phone, since this generates more confidence and tranquility in your future partners, at least one month in advance and confirm them a couple of days before they are made.

Most of the Nicaraguan companies are familiar and quite hermetic, so the first meetings will take place in their facilities, in hotels or in restaurants, if it is a business lunch. With the passage of time, you may be invited to the house of one of your interlocutors.

IMPORTANCE OF RELATIONSHIPS

Expect to invest a considerable amount of time developing a good rapport and a pleasant, relaxed relationship before discussing business. Establishing an atmosphere of trust is a precondition to a successful business relationship.

Good topics for small talk are football (soccer), Nicaraguan history, literature and places to visit, as well as information about your home town and region. You will probably need two or three visits to the country before you can expect to do serious business. Like other Latin Americans, Nicaraguans value deep, long-lasting relationships.

HIERARCHY, STATUS AND RESPECT

In Nicaragua, one's status depends more on social class, education and family background than on personal achievement. Business visitors can enhance their status by displaying a lively interest in intellectual pursuits, dressing elegantly and staying in top hotels.

PROPER PROTOCOL

Shake hands with everyone in the room, both men and women, when meeting or departing. The handshake should not be too firm. When business relationships are more reliable, you can greet women with a kiss on the cheek or a light tap on the shoulder for men.

Use last names only preceded by Señor, Señora or Señorita (Mr, Mrs or Miss). The use of titles is very common, such as Licenciado (anyone with a college degree), Doctor, Professor, Arquitecto, Ingeniero, etc. The use of the title without the last name (Señor Ingeniero) is also appropriate.

Smile and maintain eye contact when you are introduced to someone. 'Como está?' (how are you?) is the most common greeting.

Business cards in English are accepted. However, all correspondence and documents from your company should be translated into Spanish.

Putting your hands in your pockets while talking to someone is considered impolite. Another gesture to avoid is the American OK sign.

COMMUNICATION STYLE

Nicaraguans doesn't usually take the initiative in meetings and are rather short-spoken, so don't be surprised if they just say hello and go straight to business. Meetings usually take no more than the stipulated time, about an hour, so as time unfolds, use the time so that all topics are exposed.

You must always be clear in the commitments you make, and you must not assume anything that you cannot fulfil. Accompany your presentations with all the necessary material. Another important aspect is to send all the corresponding information to your company before the meeting, where it shows that it is responsible, serious and capable of fulfilling its commitments. However, you can accompany your presentation with this information, along with the details of the products or services you are offering.

BUSINESS ENTERTAINMENT

Wise negotiators include plenty of time for socialising during drawn-out discussions. If you wish to entertain a high-level executive, ask his/her secretary to recommend a restaurant. It is important to host your counterpart only at elegant, prestigious establishments. Similarly, business visitors should only stay in top hotels while in Nicaragua.

Women drink wine, spirits and liqueurs, while beer is considered a man's drink. Nicaraguans normally eat a light breakfast between 7– 9am and a substantial lunch from noon until 2pm. Dinner usually starts after 7pm but dinner parties don't normally get underway until after 9pm.

Avoid using the side of your fork to cut anything and do not pick up food of any kind with your hands. Although they are a very expressive people, Guatemalans do not like a lot of conversation during meals. Wait until coffee is served before talking business, unless your counterpart introduces the topic.

3 – FOREIGN INVESTMENT

LEGAL FRAMEWORK FOR FOREIGN INVESTMENT

OVERVIEW

Nicaragua is a country interested in promoting economic and social development. This is reflected in the Foreign Investment Law No. 344 ('Ley de Inversión Extranjera No. 344') "Law for the Promotion of Foreign Investments" and its regulations, as well as other specific sectoral laws that grant investment incentives. Law No. 344

LOCAL BUSINESS STRUCTURES

The structure for foreign investment will depend on a number of factors including legal considerations, the location of the business and taxation. Nicaraguan law recognises the following local business structures:

- Collective company ('Sociedad Colectiva')
- Unipersonal company ('Compañía Unipersonal')
- Limited liability company ('Sociedad de Responsabilidad Limitada')
- Commandite company ('Sociedad en Comandita Simple')
- Commandite company by shares ('Sociedad en Comandita por Acciones')
- Corporation or stock Company ('Sociedad Anónima')
- Cooperative company ('Cooperativa')

The most important provisions applicable to local business structures are:

- The company is established by granting and executing a public deed, authorised by a Nicaraguan Notary
- At least two natural and/or artificial persons must execute the bylaws of the company. In order to avoid dissolution, the company must continue with at least two shareholders throughout its life
- Shares must be issued to the stockholder's name (nominative shares)
- After its establishment, the company must be provisionally registered in the Mercantile Registry of the Republic of Nicaragua.
- Following this, the company is registered as a contributor before the Tax Administration Office, obtains its Tax Identification Number (RUC) and an authorisation to issue invoices and other accounting documents
- With these requirements, the company may begin its operations, pending any opposition by an interested party. Most opposition is based on similarities with another company's name and/or trade name
- The approximate time to complete the establishment of a local company is 30 days after receiving the corresponding legal information and documents. However a provisional registration is obtained within five business days of incorporation, as long as all the corresponding legal documents are obtained.

BRANCH OFFICES

For foreigners, the country's Commerce Code establishes the possibility of setting up a branch of a foreign company in Nicaragua, which has a process of incorporation and legalization different from that of a Nicaraguan company, but subject to the same tax treatment. To legalize a branch of a foreign company in Nicaragua, the directors of the foreign company must issue a resolution authorizing the opening of the branch in Nicaragua, at the same time they must present a copy of the statutes and the articles of

incorporation of the parent company. These documents must be sent to Nicaragua, duly notarized and legalized before the Nicaraguan consulate in the country of origin of the foreign company. Once authenticated in Nicaragua, said documents are notarized by means of a public deed issued before a Nicaraguan notary and are registered in the Public Mercantile Registry of the department with which the branch will operate.

For those companies constituted with 100% foreign capital, in Nicaraguan practice, certain institutions such as the Nicaraguan Social Security Institute, the Public Registry, financial institutions, among others, require that at least the legal representative have a Nicaraguan residence or be a Nicaraguan.

TEMPORARY BUSINESS

Foreign companies may also request authorization from the Mercantile Registry to carry out temporary business in Nicaragua. In these cases, foreign companies are required to provide evidence of being duly organized in its country of origin and must appoint a legal representative in Nicaragua.

OPERATIONS REQUIRING NO REGISTRATION IN NICARAGUA

Foreign companies do not require to be registered in Nicaragua to carry out any of the following activities:

- Take part in legal action or proceeding before a Nicaraguan court or public office.
- Open or maintain bank accounts in an authorized bank in Nicaragua.
- Sell or purchase from independent commercial agents legally established in Nicaragua.
- Purchase orders through agents legally established in Nicaragua provided such purchases are subject to confirmation or acceptance abroad.
- Grant or open loan to companies established in Nicaragua.
- Issue, endorse or contest credit instruments in Nicaragua.
- Acquire movable goods or real estate, with the exception of land near international borders and waterfront properties, provided that such goods are not part of a local company or the foreign company does not negotiate with such goods regularly.

FOREIGN INVESTMENT LAW

The main economic sectors of Nicaragua are open to both local and foreign investment and ownership; however, some restrictions apply to sectors considered to be of strategic interest, such as the military.

Law No. 344 "Law for the Promotion of Foreign Investments" guarantees:

- a) Equal treatment of foreign and domestic investment.
- b) Remove restrictions on how foreign capital can enter the country.
- c) Recognizes the foreign investor the right to property, and in the case of a declaration of eminent domain, to receive the due compensation.

The law does not distinguish between acquisition, merger, or new investment. There are no restrictions in Nicaragua regarding the conversion or transfer of investment-related funds. Many transactions are made freely and completely in dollars. Remittances of investment capital, income, loan repayments, and lease repayments are freely permitted through the private exchange market operated by local financial institutions. The Law also contemplates:

- Free convertibility of currencies.
- Free Expatriation of Capital: Foreign investors are guaranteed the enjoyment of expedited transfers of funds abroad and the conversion of foreign currency through the local banking system.
- There is no minimum or maximum investment amount.- 100% international ownership allowed. There is no discrimination against foreign investors, both as owners and shareholders.
- Accelerated depreciation of capital goods
- Equitable treatment for local and foreign investors.
- Access to financing available in local banks, according to their terms and conditions of approval.
- Property Protection and Security: Nicaraguan law recognizes and guarantees the rights of the national and foreign investor, the protection of their property and the right to the free disposal of assets, capital and profits.

Likewise, reforms to the Judicial System and administrative procedures have been carried out in order to improve the business climate, stimulating foreign investment in Nicaragua. Other government actions aimed at improving the investment climate include: strict economic discipline under a program supervised by the IMF, which culminated in a significant cancellation of its external debt, the opening of a single office for registration procedures for Investors within of the Ministry of Industry and Commerce, and the implementation of the privatization process of state companies.

Nicaragua is a signatory to the Central American Treaty for the Protection of Intellectual Property and there is by law, the full protection of intellectual property, including trademarks, patents and trade names. Nicaragua is also a member of the World Trade Organization (WTO) and, therefore, adheres to related agreements on trade in intellectual property rights.

Banking policies in Nicaragua allow the flow of financial resources to the private sector. Different financing options include industrial and commercial loans, different types of credit lines, leases with an option to buy, and discounted sales of accounts payable.

Nicaragua has signed and ratified a total of 19 bilateral investment treaties; with Mexico, Spain, Taiwan, Denmark, the United Kingdom, the Netherlands, Korea, Ecuador and the Dominican Republic, among others. The free trade agreement between the United States, Central America and the Dominican Republic also includes investment protections that go beyond those traditional obligations stipulated in bilateral investment treaties.

4 – SETTING UP A BUSINESS

In the following section, you will find step-by-step procedures for company registration/filing.

Below is a detailed summary of the bureaucratic and legal hurdles faced by entrepreneurs wishing to incorporate and register a new business in Nicaragua. It examines the procedures, time and cost involved in launching a commercial or industrial business with between 10 and 50 employees and start-up capital of 10 times the economy's per-capita gross national income.

No.	Procedure	Time to complete	Associated costs
1	<p>Prepare company incorporation act Agency: Public Notary</p> <p>To prepare the constitution of a society, a minimum of 2 partners are required, either individuals or corporations and a minimum share capital of C\$ 10,000 (approximately US \$ 400.00). The constitution certificate must be granted and certified by a Nicaraguan notary public.</p>	1 day	C\$ 10,000
	<p>Buy accounting and corporate books</p> <p>These books are required for company registration and can be purchased from local bookstores.</p>	Less than one day	
	<p>Enter documents for the Commercial Registry in the Single Window of Investments Agency: Public Notary</p> <p>En usuario debe presentar la solicitud de inscripción de la sociedad y la solicitud de inscripción como comerciante en VUI para que sean procesadas por el registro mercantil. Se requiere el pago de las tarifas de registro correspondiente a 1% del capital de la sociedad pero hasta un máximo de C\$30,000 (aproximadamente US\$ 1,200). En este momento también se presentan los libros contables para su debito sellado.</p>	Less than one day	Up to C\$30,000
	<p>Obtain the single registration document authorization to print invoices Agency: Registration Court</p> <p>This document is completed and entered in the single</p>	3 days	1% of the capital of the company

	<p>window of investments and with it you obtain the Municipal License, the license from the Social Security Institute and the Single Registry of the Taxpayer of the general direction of income. The DUR requires the payment of 1% of the capital of the company. (Other payments may be necessary)</p>		
	<p>Foreign Investors Certificate <i>Agency:</i> Official Gazette (Diario de Centroamérica)</p> <p>Foreign investors who make investments above US \$ 30,000 can register with the Ministry of Development, Industry and Commerce to obtain a foreign investment certificate, which is useful to apply to the Nicaraguan residence and accredit the investment made in the country.</p>		
	<p>Legal advice</p> <p>It is advisable to seek legal advice before starting the process of incorporation and registration of a company in Nicaragua, in order to ensure that all documentation is properly prepared and inconvenience or delay in the process is avoided.</p>		

5 – LABOUR

LABOUR & EMPLOYMENT – COMMON ISSUES

The minimum guarantees of Nicaraguan Labor Law enjoy constitutional protection and include the right to:

- 1) Equal salary for equal work in identical conditions, without discrimination for political, religious, social, sex or any other reason.
- 2) 8-hour workday, weekly rest, vacations, remuneration for national holidays and salary for the thirteenth month in accordance with the law.
- 3) 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 under the conditions determined by law.

The labor code is mandatory for all natural or legal person who are established in Nicaragua. The rights established in favour of workers are inalienable.

The Spanish language will be the official language to be used in all labor relations and in the case of labor relations that take place on the Caribbean Coast of Nicaragua, the language of their communities will be used.

Employers are required to hire at least 90% of Nicaraguans workers, except in cases where for technical reasons they are authorized by the Ministry of Labor to hire more foreigners.

Foreigners who wish to work must obtain the corresponding authorization granted by the General Directorate of Migration and Foreigners ('Dirección General de Migración y Extranjería').

TYPES OF EMPLOYMENT CONTRACTS

The individual employment contract is presumed for an indefinite period, unless the parties have agreed on a term. However, if the term of a fixed-term contract expires and the worker continues to provide his services for an additional 30 days, or if the term is extended a third time, the contract will be considered for an indefinite period.

INDIVIDUAL CLAIMS

The most common issues are as follows:

- Disputes regarding the justified/unjustified termination of the working contracts of employees and the resulting claims for severance entitlements (severance is equivalent to one month's average of salaries earned during the last six months of the contract, per each year of continuous work, with no limit of years of work, nor monthly salary cap)
- Disputes concerning the true legal nature of the contracts and/or agreements entered into with associates (employment relationship vs. independent contractor)
- Adjustments in calculation of severance entitlements, based on additional compensations and other entitlements (performance bonuses, share participation agreements, non-salary benefits, etc)
- Overtime claims (specific limits exist, both from a daily and weekly perspective)
- Maternity protection claims (in the event of termination or harassment of female employees while pregnant or during the breastfeeding period following child birth).

COLLECTIVE CLAIMS

These include:

- Petitions from organised workers through unions or coalitions demanding collective bargaining to improve salaries, economic benefits and working conditions. These unions or coalitions are formed independently in each specific business or company (or group of related companies), and are not generally unions for a trade or branch of activity
- Reinstatement petitions in cases where employees are fired while a union is in the formation process or while a collective dispute has been filed before the courts.

ACTIONS AND CLAIMS BY LABOUR AUTHORITIES

The Law of Mediation and Arbitration ('Ley de Mediación y Arbitraje'), approved on May 25, 2005 and published in the official newspaper "La Gaceta" No. 122 of June 24, 2005, recognizes without reservation the execution of Judgments of Arbitration Abroad. The Law regulates two alternative methods to the judicial route to solve any type of controversy that results from contractual relations, in an expedited manner such as Mediation and Arbitration. It can be used by both nationals and foreigners, including the State of Nicaragua, to resolve patrimonial and non-patrimonial differences. Its scope is national and international, without prejudice to treaties, conventions, covenants or any other instrument of International Law to which Nicaragua is a part of.

LABOUR & EMPLOYMENT ISSUES/LEGAL PROCEEDINGS

The minimum guarantees of Nicaraguan Labor Law enjoy constitutional protection and include the right to:

- i. Equal salary for equal work in identical conditions, without discrimination for political, religious, social, sex or any other reason;
- ii. 8-hour workday, weekly rest, vacations, remuneration for national holidays and salary for the thirteenth month in accordance with the law; and
- iii. Social security for comprehensive protection and means of subsistence in cases of invalidity, old age, professional risks, illness and maternity; and their relatives in cases of death, in the manner and conditions determined by law.

The Labor Code is mandatory for all natural or legal persons who are established in Nicaragua. The rights stipulated in favor of the workers are inalienable.

Employers are obliged to hire at least 90% of Nicaraguan workers, except in cases where for technical reasons they are authorized by the Ministry of Labor to hire more foreigners, on the other hand, foreigners who wish to work must obtain the corresponding authorization granted by the General Directorate of Migration and Immigration.

The main characteristics contained in this regulation are the following:

TYPES OF LABOR DAY:

Daytime: the one that takes place between 6:00 AM and 8:00 PM. The ordinary daytime workday is 8 hours a day, completing 48 hours a week.

Nocturnal: work carried out between 8:00 PM and 6:00 AM the following day is considered nocturnal. The ordinary night work day is 7 hours a day, completing 42 hours a week.

Mixed: The mixed workday is 7.5 hours per day, for a total of 45 hours per week.

Overtime: The work that is done outside the ordinary daily hours constitutes overtime and must be paid 100% more than what is agreed for the regular day. Overtime cannot exceed 3 hours a day, nor 9 hours a week.

TYPES OF LABOR CONTRACTS IN REASON FOR THEIR TERMS

The individual employment contract is presumed for an indefinite period, unless the parties have agreed on a term.

However, if the term of a fixed-term contract expires and the worker continues to provide his services for an additional 30 days, or if the term is extended a third time, the contract will be considered for an indefinite period.

SOCIAL BENEFITS

The total social benefits amount to 49.49%. Occasionally, the parties agree to pay cash for vacations and holidays not enjoyed, but the employer is not obliged to make those payments, since the vacations must be rested, according to consultations evacuated by the Ministry of Labor, rather there is an obligation on the part of the employer to grant them in the form of rest.

- i. Paid vacations: all workers are entitled to 15 continuous days of vacation with pay for every 6 months of continuous work for the same employer.
- ii. Aguinaldo: for each year of continuous labor, all workers are entitled to the thirteenth month of salary (aguinaldo). If the worker does not have a year of continuous work, the thirteenth month is calculated proportionally to the months worked. The thirteenth month must be paid within the first 10 days of December, otherwise, a penalty equivalent to one day's salary is applied for each day of delay.
- iii. Compensation for termination of contract: as a general rule, an employer can dismiss any worker without any cause, having to pay compensation pursuant to article 45 of the Labor Code. The Compensation is also applicable when the termination occurs by mutual agreement or by resignation and consists of the payment of 1 month of salary for each year worked, during the first 3 years; and 20 days of salary for each additional year worked after the 4th year, up to a maximum of 5 months of salary.

ALTERNATIVE LABOUR DISPUTE RESOLUTION SOLUTIONS

In the resolution of labour issues and disputes, private arbitration is not accepted nor recognised. All the administration of justice in labour matters has to be performed by the Labour Courts which form part of the Judicial Branch of government (Supreme Court).

The Court of Arbitration previously mentioned and provided for in the resolution of collective disputes deriving from collective bargaining, is not really an arbitration body which functions as an alternative to the public Labour Courts, since it is also composed of and presided over by the Labour Judge and by two other members (one from the employee sector and the other from the employer sector). The functions of such a Court of Arbitration are set out in the Labour Code in the chapter dealing with the procedural aspects of collective disputes of a socio- economic nature, and the judgement is subject to a full revision (material and formal) by the Court of Appeals.

Conciliation is completely voluntary and can be used as an alternative solution. The conciliation can be done privately or through the General Labour Inspection and even the Ministry of Labour.

Only in collective conflicts pertaining to collective bargaining is the conciliation activity mandatory. Otherwise, it should not be held as a necessary phase of the judicial proceedings by either party. Any recommendation or position taken by the Court of Conciliation is not obligatory or binding for the parties, and must be voluntarily accepted.

6 – TAXATION

Accurate and current information regarding taxation in Nicaragua is often difficult to obtain as there are no reporting services such as those available in the United States and other countries.

Being aware of the need to establish a tax policy that contributes to improving the conditions required to increase productivity, exports, job creation and a favourable environment for investment, in January 2013, Law 822 came into force, of the Tax Agreement, whose main objective is to modernize and improve the tax administration, as well as simplify the payment of taxes, regulate exemptions and reduce exonerations, reduce evasion and broaden the tax base.

TAX AUTHORITIES

The tax authority in Nicaragua is the central government through the General Directorate of Revenue ('Dirección General de Impuestos / DGI'), which collects and administers almost all taxes and leaves the municipal governments to collect contributions of a municipal nature ('arbitrios').

In Nicaragua, the tax power is held by the Ministry of Finance and Public Credit, who in accordance with article 21, paragraph a) of Law No. 290 "Law of Organization, Competition and Procedures of the executive power": defines, supervises and controls the policy, tributary. Likewise, some of the aforementioned delegated functions are materialized through the General Directorate of Revenue, or the General Directorate of Customs Services ('Dirección General de Servicios Aduaneros / DGA'), who are the tax collectors par excellence. Public Law corporations that administer taxes independently of the central power, among them we have the municipalities, and those related to Social Security contributions, such as the Nicaraguan Social Security Institute (in general), the Institute of Military Social Welfare (for the armed forces), and the Institute of Social Security and Human Development (for the security forces under the stewardship of the Ministry of the Interior).

VALUE ADDED TAX (IVA, FOR ITS ABBREVIATION BY INITIALS IN SPANISH)

The Value Added Tax (IVA) taxes the transfer of products (the transfer of ownership of a good from one person to another), services (operations that do not transfer ownership of products but that involves costs), and imports (introduction of products tangible to the country).

The IVA percentage is 15% of the value of the product or cost of the activity carried out. In art. 111 of the LCT, the activities that are exempt from the transfer of IVA are established.

Monthly Taxable Income (taxable base amount)

		Fixed	Tax Rate
C\$.0.01	C\$.100,000.00	C\$.0.00	0%
C\$.100,000.01	And up	C\$.0.00	15%

INCOME TAX

The Income Tax (IR) is a direct and personal tax that taxes the income from Nicaraguan sources obtained by taxpayers, residents or non-residents. The incomes are classified into:

- a. Income from work
- b. Income from economic activities
- c. Capital income and capital gains and losses

Likewise, the IR taxes any increase in unjustified equity and income that is not expressly exempt or exempt by Law.

In the Tax Concertation Law ('Ley de Concertación Tributaria / LCT') it is established that any natural or legal person, who, even being a foreigner, is for more than 180 days within an annual period, without the count having to be run, will be subject to IR and You must liquidate it and pay it as if you were a Nicaraguan resident.

From January 2013, the ordinary fiscal year that ran from July 1 to June 30 of the following year, became a calendar year from January 1 to December 31 of each year.

INCOME TAX ON SALARIES:

The Municipal Income Tax (IMI) establishes a monthly payment equivalent to one percent of total gross income. This applies to any natural or legal person who is engaged in the marketing of goods, industrial activity or the provision of services, whether they are professional or not. Exports, state institutions, among others, are exempt from this payment.

TRANSFER PRICING RULES

The transfer prices of Nicaragua were born with the implementation of LAW 822, the Tax Concertation Law published in the gazette No. 241 of December 17, 201, in its article No. 303 provided an application date from January 1, 2016 in it are the bases or general rules. In this law, the principle of free competition is established as a fundamental basis, understood as the price or amount that independent parties would have agreed in comparable operations under conditions of free competition. Companies that have the same control body are now understood as related parties.

In order to determine the valuation of operations between related parties prior to its completion, the Tax Administration may establish a procedure to request an Advance Price Agreement (APA), in accordance with the following rules:

1. Taxpayers may request the Tax Administration to determine the valuation of the operations between related persons prior to their execution. Said request would be accompanied by a proposal from the taxpayer based on the value that independent parties would have agreed in similar operations.
2. The specialized transfer pricing unit will be competent to resolve this procedure.
3. The tax administration may approve, deny or modify the proposal with the taxpayer's acceptance. Its resolution will not be appealable.
4. This agreement will take effect with respect to the operations carried out after the date it is approved and will be valid during the tax periods specified in the agreement itself, without exceeding the four tax periods following the date on let it begin to take effect. Likewise, it may be determined that its effects reach the operations of the current tax period.
5. The proposal referred to in this article may be understood as rejected once the 30-day period has elapsed from the request, without prejudice to the obligation to resolve the procedure with number 3.

TAX ON FISCAL REVENUE STAMP AND SPECIAL SEALED PAPER USED BY NOTARIES:

This tax applies to certain documents listed in Article 240 of the Tax Agreement Law, which are issued in Nicaragua or in foreign countries, but have effect in Nicaragua.

The person who receives this product or right is obliged to pay. The stamp tax will be applied according to the rates and forms of payment established in Articles 240 and 241 of the LCT.

TAXES ON REAL STATE

The real estate tax (IBI) is levied on properties located within the borders of each of the municipalities and owned as of December 31 of each year. The lands, 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 is one percent (1%) on the tax base, which can be established, in order of priority, in the following three ways:

- a. Property assessment of the Municipal Cadastre, which is based on the application of the DGI-MHCP Fiscal Cadastre guidelines (land appraisal can also be carried out by other companies contracted by Mayor's Office, who must be an expert in land and appraisal properties).
- b. The self-assessment, this declared by the taxpayer basen on the description of the property according to formats, tables of value and municipal costs provided by the Mayor.
- c. The value of the property is estimated by the taxpayer, the value is based on the bool value or acquisition value of the property less accumulated depreciation, whichever is higher.

When the tax base is determined through the appraisal of property from the Municipal Cadastre or through the self-assessment, the tax base will be 80 percent of the total value of the property. The Real Estate Tax can be paid in two equal parts, of which 50 percent is payable during the months of January, February, and March and the other 50 percent no later than June 30 of the same year. If the taxpayer pays the full amount of IBI during the first quarter, a 10 percent discount is applied.

OTHER TAX-RELATED ISSUES:

FREE-TRADE ZONES: Free-Trade Zones in Nicaragua are governed in accordance to Decree

The Free Zones Regime is the most dynamic sector in the country, currently there are 212 companies that generate around 115,106 direct jobs and represent more than 60% of exports to the United States under CAFTA-RD.

The National Commission on Free Zones is betting heavily on attracting more Automotive Harness companies, as this industry is growing exponentially worldwide. This growth represents a great opportunity for Nicaragua to attract new companies taking into account that the country offers a competitive cost structure, a qualified workforce and proximity to important markets, among others.

However, the largest share is retained by the traditional Textile Clothing sector, generating around 68,668 jobs (60% of all jobs within the free zone regime) and represents more than 56% of the total exports of the Regime. Said item has continued its process of vertical integration of the industry with the establishment of new textile companies such as Hialpesa, of Peruvian capital, which produce knitted fabric.

Nicaragua is one of the first countries in the Latin American Region to successfully implement the Better Work program in the Textile and clothing industry; led by the International Labor Organization, the Secretary of Labor of the United States, the World Bank, together with unions, government and the private sector promoting the improvement of labor conditions in the country.

7 – ACCOUNTING & REPORTING

TAX YEAR

The fiscal year runs from January 1 to December 31 of each year.

ACCOUNTING STANDARDS

In 2011, the World Bank presented a report on compliance with standards and codes (ROSC), which established the current status of Public Accounting in Nicaragua, both in accounting and in the area of audits and accounting regulation at the national level.

Although Nicaragua has been working since 2002 on accounting. In the adoption of international financial standards, it is until 2011 that the entire accounting update is finalized. In this case in Nicaragua, all these financial accounting standards are in force in Nicaragua and we know them as IFRS (International Financial Reporting Standards) in their two categories.

We have full standards and SME standards. Full norms or complete norms, or comprehensive norms are norms that regulate companies that are listed on the Stock Exchanges, in Nicaragua there are several companies that are listed on the Stock Exchanges, they are a minority, but those companies would have to comply with this type of regulation.

ACCOUNTING REGULATION BODIES

Nicaraguan College of Public Accountants

ACCOUNTING REPORTS

All companies must submit an annual report in Spanish and publish their balance sheet and profit and loss statements in the Official Gazette.

PUBLICATION REQUIREMENTS

The balance sheets of the companies must be published every year. It is recommended to have a clear accounting system and fully translated into Spanish.

PROFESSIONAL ACCOUNTANCY BODIES

For more information, see the following website: <http://www.ccpn.org.ni/>

CERTIFICATION AND AUDITING

The audited financial statements must be presented annually for control by an external auditor in the country.

8 – UHY REPRESENTATION IN NICARAGUA

CONTACT DETAILS

UHY Auditores y Consultores S.A
Semáforos Villa Fontana 300 metros al este
100 metros Sur. Edificio Escala
4to piso Suite 4B
Managua
Nicaragua
Tel: +505 2226 9726

Year established: 2012
Number of partners: 4
Total staff: 15

CONTACTS

Liaison contact: Omar Pérez Rosales
Position: Partner
Email: operez@uhy-perez.com

ABOUT US

Making our clients feel confident and comfortable with our expertise and teamwork is one of our greatest motivations as a firm.

BRIEF DESCRIPTION OF FIRM

UHY Auditores & Consultores. is an audit and accounting firm operating in our country since 2012, providing external audit services, management consulting, tax and legal services. We are a member firm of UHY, a cohesive international network of independent member firms providing audit, accounting, tax, business advisory and consulting services worldwide.

A group of young entrepreneurial professionals with experience in external audit services, management consulting, taxes, accounting and finance have been associated with our firm for the development of our services. The partners have been managers, and implementers of cutting-edge technology, to focus on fast, high-impact projects. In addition, they have been professors at the Universidad Nacional Autónoma of Nicaragua and Universidad Centroamericana UCA.

SERVICE AREAS

Audit & Assurance, Business Advisory & Accounting, Corporate Finance, Corporate Governance & Risk Management, Corporate recovery & Insolvency, Corporate Tax, Forensic accounting & litigation support, Fund Services, Legal, Internationalisation, Management Consulting & Solutions, Private Client Services.

PRINCIPAL OPERATING SECTORS

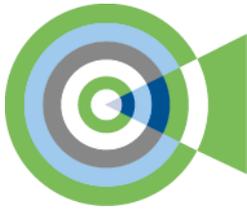
Corporate
Industrial
Pharmacist

LANGUAGES

Spanish and English

CURRENT PRINCIPAL CLIENTS

Marsk Line, Sigma Q, Caplin Point, Aquatec, Benacafe, Grupo Solid



LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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