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Country Comparative Guides

Legal Landscape | Tax

Paraguay - Tax

Contributor



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Paraguay - Tax

1. What is the current legal landscape for Tax Law in your jurisdiction?

Paraguay offers a stable, relatively simple framework centered on a flat 10% corporate income tax (IRE) and a 10% VAT (with a 5% reduced rate for some cases). Withholding tax on dividends is 15% for non-residents, subject to reduction under applicable DTTs (typically 10%–5%), and 8% for resident shareholders. There are no provincial or municipal income taxes, which keeps the effective burden predictable nationwide. Export-oriented regimes are pivotal, characterized by a VAT refund for most exports. The Maquila system applies a single 1% levy on the Paraguayan value added or export invoice, coupled with customs and VAT suspension on inputs, and supports both manufacturing and certain services. Investment promotion rules complement this by granting time-bound exemptions and import benefits for priority projects, and several investment-incentive regimes have just been updated to streamline approvals and extend benefits. Administration is increasingly digital, with e-invoicing and tighter cross-checks between taxpayers' returns and customs data following the 2023 merger of the tax and customs authorities into a single entity. Overall, the policy stance is pro-investment, focused on low statutory rates, clarity for exporters, and process standardization.

2. What three essential pieces of advice would you give to clients involved in Tax matters?

- a. Design for operational review, not just formal compliance. Build files that enable an auditor or planner to trace the business as it actually operates, including end-to-end process narratives, transaction walkthroughs, controls mapping, and evidence that contracts, logistics, invoicing, and cash flows align. This serves both tax authority scrutiny and forward-looking tax planning.
- b. Structure cross-border flows thoughtfully and document them. Classify payments (services, royalties, interest, cost sharing) with care, confirm treaty eligibility and beneficial ownership, and keep a clear rationale for pricing. Include practical clauses for withholding and gross-up where appropriate, so payments move smoothly, and exposures stay predictable.
- c. Bring tax in at the inception of any material contract or project. Involve the tax team or advisers from day one so they can engineer the least burdensome route. When tax is consulted at the end, options are limited, timelines are tight, and the result is often a more expensive structure than necessary.

3. What are the greatest threats and opportunities in Tax law in the next 12 months?

Opportunities:

- Nearshoring and corridor integration. Paraguay's low-cost, reliable hydropower, improving river-and-road links, and special regimes let manufacturers and service hubs plug into MERCOSUR with competitive landed costs, provided the tax model is simple and scalable.
- Expansion of export services under Maquila. BPO/IT, engineering, and other service lines can scale under the 1% unique tax regime, widening the opportunity set beyond traditional manufacturing.
- Updated investment-incentive regimes. Recent upgrades streamline approvals, extend benefit

horizons, and better coordinate with Maquila, materially lowering cash tax and capex friction for new projects.

Threats:

- Process misalignment between paperwork and operations, exposed by real-time data cross-checks.
- Cross-border frictions around services, royalties, and related-party payments due to a lack of proper documentation and pricing.
- Stricter eligibility and clawback risk under refreshed incentive laws. Following recent updates to several fiscal-incentive statutes, substance, local value-add, and performance KPIs are tighter; benefits can be reduced or withdrawn if projects drift from approved scopes or miss milestones.

4. How do you ensure your practice maintains high client satisfaction levels?

- No-surprise engagement. Upfront scoping with phased budgets, clear fee caps, and change-control. We flag third-party costs, expected filings, and approval gates from day one, with realistic timelines and dependencies.
- Business-speed, legally safe. We align to commercial tempo with rapid triage, crisp interim views, and clear go/no-go paths, but we will not trade deal certainty for a convenient shortcut. Sequencing and documentation are designed to avoid future tax or regulatory blockers.
- Senior-led, accountable team. Direct partner involvement, a single point of contact, defined roles, and an escalation path. You always know who owns what and by when.
- Practical deliverables. Executive summaries, decision checklists, and implementation memos that map actions, owners, and dates. We optimize for what management needs to decide, not for page count.
- Transparent communication. One source of truth, predictable update cadence, and straight talk on risks, alternatives, and trade-offs. No euphemisms, no surprises.
- Proactive risk and deadline management. Calendared renewals and filings, horizon-scanning for rule changes, and early warnings with mitigation options.
- Coordination with stakeholders. We quarterback across counterparties, accountants, financials, notaries, and authorities to keep workstreams synchronized.
- Confidentiality and conflicts. Strict protocols and proactive conflict check to safeguard information and independence.

5. What technological advancements are reshaping Tax law and how can clients benefit from them?

- Connected tax rails. When e-invoicing, digital ledgers, customs, and banking systems communicate with each other, you can see the full transaction flow almost in real time, which helps clients secure faster refunds or credits, reduce audit gaps, and maintain cleaner evidence.
- AI copilots with guardrails. Smart tools draft and organize contracts, board approvals, and TP files with redaction, citations, and human review, so teams spend less time on admin, make fewer versioning mistakes, and get sign-offs faster.
- Anomaly detection and risk sensing. Simple analytics surface odd margins, prices, vendor behaviour, or cross-border flows early, letting you fix issues before a notice lands.

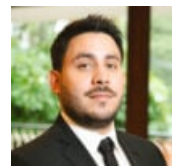
- Immutable evidence and e-sign. Trusted timestamps, e-signatures, and tamper-evident storage create a clean paper trail, making reviews smoother and disputes far less painful.
 - Workflow orchestration across stakeholders. Shared queues, clear SLAs, and visible ownership keep everyone aligned on the next step, cutting surprises and smoothing approvals.
 - Payment and withholding orchestration. Automating WHT calculation, documentation, and remittance at payment time, directly through the bank, reduces penalties and reconciliation noise so finance can breathe.
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