

Taxation of Offshore Companies

Decree Law 46 dated June 24, 1983 ("DL 46"), which authorizes the establishment and operation of offshore companies, describes the corporate form available for offshore companies and the activities in which they can engage.

DL 46 also exempts offshore companies from the income tax on their actual profits and levies a flat annual tax on such companies equal to LP 1,000,000 (US\$666.00)

This tax is levied in full from the first year of the company's operation regardless of the month in which the company starts to operate.

Offshore companies are also exempt from the 0.3% stamp duty and the 10% tax on distributed dividends.

Capital gains derived from the sale or transfer of the fixed assets of offshore companies are subject to the regular tax of 10% provided in Article 45 of DL 144.

As for foreign executives employed by offshore companies, 30% of their salary is considered as "representation allowance" and is thus exempt from the income tax provisions. The rest of their salary is taxed at the regular payroll tax rate, which ranges from 2% to 20%.