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Guatemala
TAX GUIDE



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1.Introduction

In today's globalized world, proper advisement is what makes the difference.



Following please find a summary on important tax, economic, legal, labor and business information related to Guatemala, updated as of March 2009.

It is important to indicate that the purpose of this document is to provide information at a summary level on how to do business in Guatemala. Thus, our comments do not constitute legal opinion and may or may not coincide with the opinions that the Superintendency for Tax Administration -SAT- (Guatemalan Tax Office), courts and other interpreters of the law could have on these issues.

You are responsible for the tax positions that you decide to assume since this guide only provides general information on Guatemala. Therefore, the risks related with the decisions you make are solely your responsibility.

2. Country Profile



Location and Capital City

Guatemala is the northernmost country in Central America with Mexico to the north and west, Belize and the Atlantic Ocean to the east, Honduras and El Salvador to the south-east, and the Pacific Ocean to the south.

Other basic information is the following:

Capital

Guatemala City

Area

Total: 108,890 Kms²

Land: 108,430 Kms²

Water: 460 Kms²

Language

Guatemala's official language is Spanish. There are 21 Mayan languages such as Kaqchikel, Mam, Xinka and Kiche

Ports and Airports

The most important ports are: Puerto Barrios (Atlantic), Puerto Quetzal (Pacific), San José (Pacific), Santo Tomás de

Castilla (Atlantic) and Champerico (Pacific).

There are two international airports, the La Aurora International Airport in Guatemala City and Mundo Maya International Airport in Petén.

Government Type

is a constitutional democratic republic, governed by a freely-elected president for a period of 4 years.

Political System

The branches of the government and their main officers are:

Executive: The President and the Vice-President of the Republic are elected by universal election for a period of four years.

b. Judicial: Supreme Court of Justice.

c. Legislative: Congress of the Republic

Political Structure

Politically, Guatemala is divided into 22 Departments, similar to states or provinces, which in turn are subdivided into 331 Municipalities.

Geographical Data

The territory is basically mountainous, but up north in Petén, it is a flat, rainforest region. Two mountain ranges enter the country: one through Noquihuil in San Marcos (Sierra Madre system) and the other through Huehuetenango (Cuchumatanes system). The first mountain range of 260km runs parallel to the Pacific Ocean and becomes the central highland plateau, site of Guatemala City, Antigua, Sololá, Santa Cruz del Quiché and Chimaltenango.

Population

Population; 14.023 Million

Approx. (2009)

Population Growth Rate 2.4% (2009)

Weather and Natural Resources

Climate

Seasons:

Dry season from November to April; rainy season (1200-2500 mm.) from May to October.

Temperature

Average temperature in Guatemala City: 20 degrees C (68 degrees F)

Altitude

Guatemala City: 5,000 feet

Natural Resources

Oil, nickel, rare woods, fish, gum, hydroelectric energy, coffee, bananas, sugar cane.



2. Country Profile

Economic Information

Currency and Exchange Rate

Local currency is the Quetzal and its exchange rate (which is not fixed) is approximately Q 8.15 per US\$ 1.00 (March 2009).

Main economic activities

- Agriculture
- Manufacturing
- Commerce
- Social, personal and community services
- Construction
- Financial Services

Industries

Sugar, textile and clothing, furniture, chemicals, oil, metals, gum, tourism

Agricultural - products

Sugar cane, corn, bananas, coffee, beans, cardamom; livestock, sheep, pigs, chickens.

Economy Summary

The agricultural sector accounts for about one fourth of GDP, two-thirds of exports and half of the labor force.

Coffee, sugar and bananas are the main products.

The signing of the peace accords in 1996, which ended 36 years of civil war, removed a major obstacle to foreign investment.

The distribution of income is still highly unequal with perhaps 75% of the population below the poverty line. A free trade agreement between the United States and the Central American countries promises greater access to the United States and neighboring markets.

GDP

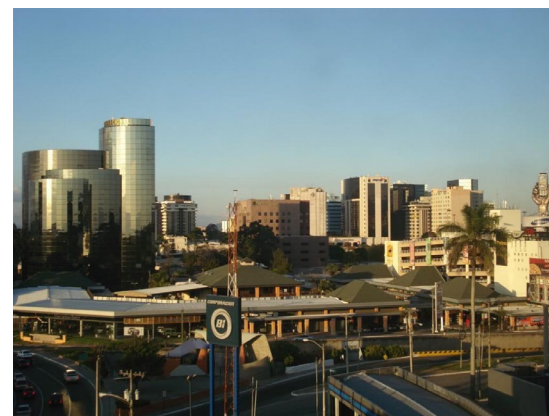
US\$ 37.5 Billion (2008 preliminary)

Inflation Rate

9.4% (2008)

Finance System

Guatemala has a very solid financial system, excellent international reserve levels and the lowest foreign debt in the region. The Guatemalan financial system is integrated by 19 banks, 16 financial institutions, 17 bonded warehouses, 11 bonding companies, 17 insurance companies, 1 foreign exchange entity, 7 off shore entities, 14 stock brokers among other institutions supervised by the Office of the Banks Superintendent. These institutions offer the investor a variety of financial services with the highest standards of quality and security.



3. Legal System

Political Constitution of the Republic of Guatemala and Structure of the Legal System

The general structure of the legal system is determined in article 175 of the Political Constitution of the Republic of Guatemala, which textually states:

“Article 175. Constitutional Hierarchy. No law can contradict the provisions of the Constitution. The laws that violate or distort the constitutional mandates are null and void *Ipsa Jure*.”

In addition, Article 9 of the Law of the Judicial Branch, Decree 2-89 establishes:

“Article 9. Supremacy of the Constitution. The courts of justice shall always observe the principle of regulatory hierarchy and supremacy of the Political Constitution of the Republic over any other law, or international treaty, except the treaties or conventions on Human Rights ratified by Guatemala, that have prevalence over internal law. The provisions that contradict a law of superior rank are not valid.”

Regarding the hierarchy of the legal system with respect to tax matters, article 2 of the Tax Code, Decree 6-91, establishes the following:

Sources and hierarchy of the tax laws.

“Article 2. Sources. The following are sources of tax laws and are in order of rank:

1. The Constitutional provisions
2. The international Laws, Treaties and Agreements that are in effect.
3. The Regulations issued by the Executive Branch through Government Agreements.”

First, it is necessary to be aware of the fact that the main source of tax law is the tax itself. Among the laws, the primary law is the Political Constitution of the Republic of Guatemala, mainly articles 239, Principle of Legality and 243, the Principle of the Capacity to Pay.



Generally Applicable Tax Laws

- Tax Code, Decree 6-91
- Code of Commerce, Decree 2-70
- Labor Code, Decree 1441
- Income Tax Law, Decree 26-92
- Value Added Tax Law, Decree 27-92
- Stamp Tax Law, Decree 37-92
- Law of Solidarity Tax, Decree 73-2008
- Law of the Tax on Financial Products, Decree 26-95
- Real Estate Tax Law, Decree 62-87
- Vehicle Circulation Tax Law, Decree 67-87
- Organizational Law and Agreements of the Board of Directors of the Guatemalan Social Security Institute (Instituto Guatemalteco de Seguridad Social)

Organization Types

The legal organization most commonly used in Guatemala is the Corporation (*Sociedad Anónima*). However, the law permits some other types of organizations. Following we present a summary of the types of organizations mentioned above:

Sole Proprietorship

An individual may register his own business in the Commercial Registry. This legal form of doing business is common for small businesses although it is tending to disappear because of its disadvantages. According to this type of organization, the owner has unlimited liability.

This is not a recommended type of organization for foreign investors.

Corporation (*Sociedad Anónima*)

As previously indicated, this is the most commonly used form of legal organization in Guatemala. The capital is divided into and represented by shares and the liability of the shareholders is limited to the amount of shares held.

The legal name of the company may refer to the activity to be carried out.

The most advantageous feature of this type of organization is the anonymity for shareholders and the transferability of shares.

General Partnership (*Sociedad Colectiva*)

According to the law, the partners in this type of organization have unlimited liability for operations made by the company. Therefore, this is not a common form of legal organization in Guatemala.

The name and surname of one or more of the partners comprise the legal name of this type of company.

Limited Liability Partnership (*Sociedad de Responsabilidad Limitada*)

Under this type of organization there may not be more than twenty partners. Partners have limited liability up to the amount of their capital contribution



to the company. The legal name of the company must include the complete name of one or more of the partners.

During the last years, some US Companies have chosen this type of organization to incorporate their subsidiaries in the country.

Foreign Companies

Foreign companies wishing to establish themselves in the country as Branch or to operate through their subsidiaries must meet some basic requirements. Foreign companies do not need to register in Guatemala when they do not perform activities in the country. Registration is not required for buying land or fixed assets or for opening local bank accounts. A foreign company legally constituted and intending to do business in Guatemala or that wishes to establish a subsidiary may do so by:

- Registering with the Commercial Registry
- Registering with the Guatemalan Tax Office

Foreign Investment

Requirements and Restrictions for Foreign Capital

The Guatemalan Government recognizes the foreign investor's full right of use, benefit and ownership of

3. Legal System

property of his investment, and the foreign investor is only subject to the same obligations as Guatemalan investors.

The Government may not directly or indirectly expropriate the investment of a foreign investor nor adopt measures equivalent to the expropriation of such investment, except in duly proven cases of eminent domain, national interest or social benefit.

There are no limits or any registration obligations in order to make foreign investments.

Temporary Investments

There is a special procedure for temporary foreign

investment.

However, said procedure is not used in practice due to the bureaucracy.

Exchange Controls

There are no exchange control restrictions currently in force in the country.



4. Taxation System

Background

Guatemalan tax legislation is based on the territorial principle. With few exceptions mainly related to withholding taxes, almost all of the taxes apply to the activities carried out within the Guatemalan territory.

Guatemala's Constitution grants the power of taxation to the Congress of the Republic. This provides certainty that no other government body can impose tax burdens on the private sector.

In the case of particular industries, there are specific consumption taxes that are not herein included.



4. Taxation System

Income Tax

Presently, Guatemala imposes Income Tax on resident taxpayers under one of the following regimes:

- a. General Regime, which consists of a 5% flat tax on gross revenues
- b. Optional Regime, which consists on a 31% corporate tax with the taxable income determined on the basis of net income

General Regime

There is a “general regime” consisting of a 5% Flat Tax on Gross Revenues for resident taxpayers. The mechanics in this 5% Flat Tax on Gross Revenues include two options a) 5% Flat Tax with monthly filings and payments to the Tax Office by the taxpayer or b) Using a withholding procedure.

In the case of direct payments to the Tax Office, the taxpayer calculates their tax liability applying the 5% rate on their gross revenues of each month, files a tax return and pays the tax within the first 10 business days of the following month.

In the case of withholdings, such withholdings are made by the clients of the taxpayer at the moment of paying the corresponding invoices. The withholding agent should issue to the taxpayer a withholding certificate as supporting documentation for the tax withheld. The withholding agent is in charge of paying the withholdings to the Tax Office within the first 10 business days of the following month.

In addition to the monthly filings, the 5% Flat Tax on Gross Revenues requires the filing of an Annual Income Tax Return which normally is for informational purposes only since the tax liability has been in fact paid through the monthly filings. This annual return is to be filed on a Calendar Year basis and is due by March 31st of each year.

Those highly profitable projects with effective corporate tax rates exceeding 5% on gross revenues find that the 5% Flat Tax on Gross Revenues is an opportunity to reduce their Income Tax burden. Additionally, the absence of transfer pricing and tax consolidation rules, combined with the 5% flat tax rate, creates room for tax planning opportunities.

Under this regime, capital gains obtained are liable to 10% Income Tax on capital gains. Capital losses can be offset exclusively against Capital gains. Capital gains are considered those gains obtained from a source other than the normal core business operation. (i.e. gains obtained from the sale of fixed assets).

Following you will find the

calculation procedure of the Income Tax under this regime:

	Gross Revenues
(-)	Exempted income and foreign source income
(=)	Taxable income
X	5% Flat Tax
(=)	Tax liability

Optional Regime

Taxpayers can choose an optional regime to file and pay the corresponding Income Tax. This optional regime consists of a 31% corporate tax in which the taxable basis is determined on the basis of net income.

Under this regime, Capital gains obtained are liable to 31% Income Tax on capital gains.

Capital losses can be offset exclusively against Capital gains. Capital gains are considered those gains obtained from a source other than the normal core business operation. (i.e. gains obtained from the sale of fixed assets).

The tax base for individuals and corporations domiciled in Guatemala and engaged in commercial or business activities who elect for

this regime is calculated on the basis of the accounting profit in the income statement prepared in compliance with Guatemalan GAAP (equivalent to International Accounting Standards, now International Financial Reporting Standards –IFRS–), adjusted for non-deductible expenses, exempted income, foreign source income, and some deductions or tax benefits as illustrated below:

	Net income
(+)	Non-deductible expenses
(-)	Exempted income and foreign source income
(-)	Other deductions
(=)	Taxable income
X	31% corporate rate
(=)	Tax liability



4. Taxation System

The more significant items of non-deductible expenses are:

a) Services provided from abroad exceeding 1% of gross revenues or 15% of Guatemalan employees' salaries. This normally affects intercompany charges.

b) Royalties exceeding the 5% of gross revenues.

c) Allowances and travel expenses exceeding 5% of gross revenues.

d) Severance accrual provisions exceeding the 8.33% of the salaries.

e) Bad debt accrual provisions when the year-end balance of the accrual exceeds the 3% of the year-end trade account receivables.

f) Inventory valuation reserves.
g) Depreciation and amortization expenses exceeding maximum deductible annual rates established by the law.

h) Expenses with no legal support documentation.

i) The deduction of foreign exchange losses is currently being disputed. The Tax Office is attempting to have the basis for deduction to be the cash basis, whereas the private sector would like it to be the accrual basis. There is no judicial opinion available to anticipate what the basis for deduction will be.

j) Starting from the second year of incorporation, Taxpayers are

not supposed to deduct any cost or expense exceeding the 97% of taxable revenues. Any excess is to be reported as non-deductible and carried forward only up to the following year.

k) Interest expense related to financing sources other than banks and financial institutions or registered bonds. In addition, any interest exceeding the maximum deductible interest rate calculated on a biannual basis on the basis of the interest rate prevailing in the local banking system.

l) Others established by the law.

The more significant items of exempted income are:

- a) Local interest income already subject to the withholding of the 10% Tax on Financial Products.
- b) Severance from insurance contracts.
- c) Dividend income from other Guatemalan taxpayers.

In the foreign source income category, any income sourced abroad such as interest from bank accounts abroad, dividend income from investments abroad, etc. qualifies as foreign source income.

It is also important to point out that Guatemala has no Net Operating Losses carry forward, so for those projects that expect to incur in losses in their first years, a detailed tax planning is recommended.

Withholding Taxes

There are specific withholding tax rates for payments made abroad in favor of non-resident corporations and individuals. These withholding taxes are applied to inter-company charges:

- a) 10% on payments or credits on account of interest, dividends, profit sharing, earnings and other benefits paid or accredited by companies or establishments domiciled in the country; payments or credits on account of allowances, commissions, bonuses and

other benefits subject to the tax.

Dividends are exempt from the 10% withholding tax when the local taxpayer paying the dividend has duly paid for their own Income Tax liability.

Interests is exempt when the lender is a foreign "first order" bank or financial institution; the local debtor has entered the loan principal into the local banking system and invested it in activities generating taxable revenues.

- b) 5% on freights related to FOB

imports and CIF and FOB exports, and on passenger fares from a Guatemalan source earned by transportation companies domiciled abroad.

c) 3.1% on payment of rights related to the media and entertainment industry.

d) 3.1% on insurance, reinsurance and rebounding premiums obtained by companies domiciled abroad.

e) 31% on payments or credits on account of fees, royalties and other retributions for the use of patents and trademarks, as well as for scientific, economic, technical and financial consulting.

f) 31% on payments or credits on account of any other Guatemalan source income.

The withholding tax indicated above must be paid to the Tax Office within the first 15 business days of the month following that in which said withholdings were made.

When the Guatemalan payer takes charge of the withholding tax, gross-up calculation is mandatory.



4. Taxation System

Income Tax on individual persons who are employees

For individual persons who obtain income for the rendering of personnel services as employees, net income is constituted by salaries and wages, commissions and entertainment expenses when they must not be proven, bonuses, including that created by Decree Number 78-89 of the Congress of the Republic, and other similar remunerations.

The taxable income of all

individual persons domiciled in Guatemala will be equal to their net income minus the following deductions:

a) The sole sum of thirty six thousand quetzales (Q. 36,000.00) for personal deductions, without need for any verification.

b) The dues paid to professional associations, premiums for bonds, the fees for payment of contributions to the Guatemalan Social Security Institute and to the Military Social Security Institute, for retirements,

pensions and mutual benefit funds; the premiums, contributions, fees or dues established in social welfare plans, pensions and retirement of employees, individual pension/retirement plans; the premiums for unendowed life insurance, personal casualty insurance and medical hospital expenses contracted with companies authorized to operate in the country and with foreign companies duly registered in the Superintendency of Banks, in accordance with the applicable legislation.

c) The amount of child support set by the family court and for the time said support is in effect.

d) The donations that can be irrefutably verified, granted in favor of the Government, the municipalities and its companies; to non-profit associations and foundations of assistance, social service, to churches, entities and associations of a religious nature, and political parties; all duly authorized. The maximum deduction allowed for this item in each period of definitive annual settlement cannot exceed five percent (5%) of the net income, nor a maximum amount of five hundred thousand quetzales (Q 500,000.00) annually.

e) The medical expenses paid in Guatemala by the taxpayer, as well as those paid in favor of his/her spouse or partner or in favor of his/her children who are minors or handicapped, with medical expenses. Medicine is not included as an expense deduction.

f) Exempt income (Annual Bonus, Christmas Bonus, severance payments)

Once the taxable income is obtained, the tax should be calculated according with the following progressive scale of rates:

INTERVALS OF TAXABLE INCOME			TAX PAYABLE	
From more than	to	Fixed amount	Plus	On the taxable income exceeding
1. Q. 0.00	Q. 65,000.00	Q. 0.00	15%	Q. 0.00
2. Q. 65,000.00	Q. 180,000.00	Q. 9,750.00	20%	Q. 65,000.00
3. Q. 180,000.00	Q. 295,000.00	Q. 32,750.00	25%	Q. 180,000.00
4. Q. 295,000.00	And above	Q. 61,500.00	31%	Q. 295,000.00

The tax payable is determined by adding to the fixed amount, the amount resulting from applying the corresponding percentage to the exceeding taxable income for each interval, according to the scale above.

For said taxpayers, the period of definitive settlement of the tax is annual, starting on January first and ending on December thirty-first of each year. In the case of periods of activity that are less than one year, the taxable income will be projected to one year and the corresponding rate according to the scale above will be applied, in order to determine the annual tax. This tax will be divided proportionally among the duration of time of the period that is less than one year and the result will constitute the tax payable, which will not be greater than thirty one per cent (31%) of the taxable income.



4. Taxation System



Value Added Tax

VAT General Rules

In Guatemala VAT is generally chargeable on:

- a) Sale of goods in Guatemala.
- b) Rendering of services in Guatemala.
- c) The import of goods and certain services into Guatemala.
- d) Leases
- e) Transfer of real estate
- f) Insurance and bonding

There are various transactions that are exempt from the VAT, including:

- a) Exports of goods and services
- b) Services provided by banks and financial institutions

- c) In-kind contributions. These will not be exempt when the property to be contributed is totally or partially part of a property previously contributed to a corporation that is engaged in real estate development.
- d) Mergers
- e) The issue and transfer of securities, credit instruments and any type of stock.
- f) The transfer of goods under trust and the return of goods placed in trust to the trustor.

The VAT standard rate is 12%. Special tax rates are available exclusively on the sale of used cars.

The tax is added to the product or service's price, multiplying this amount by 1.12. The resulting amount will be the price to the public and what the buyer will pay.

With respect to the Tax Credit Refund for exporters, the law establishes a procedure for them to request from the Tax Office a refund of the VAT paid on their inputs.

VAT Withholding Regime

Decree 20-2006 established a VAT withholding regime by virtue of which some companies in Guatemala would be registered as withholding agents. If the customers are Guatemalan entities not qualified as

VAT withholding agents, no withholding taxes will apply. If the customer is qualified as VAT withholding agent, the following rates could apply:

Category of VAT withholding agent	Rate of withholding on VAT amount
Exporters non qualified under Decree 29-89 (Drawback and Maquila Activity Law) in the acquisition of agricultural products	65%
Exporters non qualified under Decree 29-89 (Drawback and Maquila Activity Law) in the acquisition of another products and services	15%
Exporters qualified under Decree 29-89 (Drawback and Maquila Activity Law) in the acquisition of products and services	65%
Public Sector entities	25%
Credit or debit card operators in the acquisition of fuel	1.5%
Credit or debit card operators in the acquisition of products and services	15%
Special Taxpayers	15%
Other withholding agents qualified by Tax Office	15%

4. Taxation System



Solidarity Tax

Liable Persons

Individual persons or legal entities, trust funds, shareholding contracts, irregular corporations, de facto corporations, in the behalf of a trust, temporary or permanent branches, agencies or establishments of foreigners which operate in the country, joint tenancies, jointly owned properties, indivisible inheritances and other forms of corporate organization that have their own equity, that perform commercial or agricultural activities in the national territory and obtain a gross margin of over four percent (4%) of their gross income.

Exemptions

The most important exceptions are:

a) The institutions of the State, their decentralized or autonomous entities, and the municipalities and their enterprises, with the exception of the legal entities formed with mixed capital.

b) The universities and the private and public educational centers, legally authorized to operate in the country.

c) The persons subject to this tax who are commencing business activities, during the first four quarters of operation.

d) The commercial and agricultural activities conducted by individual persons or legal entities that per a specific law or due to operating within the special regimens established by the Law of Promotion and Development of Export and Drawback Activities, Decree 29-89 and the Law of Free Trade Zones, Decree 65-89, both of the Congress of the Republic, and its reforms are exempt from the payment of Income Tax, during the term of the exemption that they enjoy.

e) The individual persons or legal entities and the other entities that are subject to the Solidarity Tax who pay Income Tax with a fixed rate on their

taxable income in accordance with that set forth in article 44 of the Income Tax Law Decree Number of the Congress of the Republic and its reforms

f) The taxpayers who as of the date on which the Solidarity Tax established in this Law goes into effect incur in operational losses during two consecutive years. This exemption is solely applicable for the four tax periods following the second year in which the cited losses occurred.

Taxable Base, rate and payment of the tax

The tax base for this tax is comprised of whichever is greater between:

- a) One fourth of the amount of net assets; or,
- b) One fourth of the gross income.

In the case of taxpayers whose net assets are greater than four (4) times their gross income, they will apply the tax base established in letter b) of the previous paragraph.

The tax period is quarterly and shall be calculated by calendar quarters.

The tax rate for this tax is one percent (1%).

In cases of periods less than one quarter, the tax is determined in proportion to the number of days

of the quarter that have transpired. The tax must be paid within the month immediately following the end of each calendar quarter, using the means that the Tax Administration has made available to the taxpayers for this purpose.

Solidarity Tax as creditable to Income Tax or vice versa

The Solidarity Tax and the Income Tax may be accredited towards each other. The taxpayers may opt for one of the following forms of accreditation:

a) The amount of the Solidarity Tax paid during the four quarters of the calendar year, in accordance with the terms established in article 10 of this Law, may be accredited towards the payment of the Income Tax until its exhaustion during the three immediately following calendar years, for that which must be paid monthly or quarterly, as well as for that determined in the definitive annual settlement, as applicable.

b) The quarterly Income Tax payments may be accredited towards the payment of the Solidarity Tax within the same calendar year. The taxpayers who adopt this form of accreditation may only change it with the authorization of the Tax Administration.

c) The remainder of the Solidarity Tax that is not accredited in accordance with that stipulated here in shall be considered as a deductible expense for Income Tax purposes,

for the period of definitive annual settlement in which the three years referred to in letter a) of this section conclude.

Subsidiaries and branches with parent companies claiming Foreign Tax Credits in their home jurisdictions should determine whether the option of having Solidarity Tax or Income Tax as their primary tax in Guatemala has a negative impact on their ability to claim foreign tax credits.

4. Taxation System

Tax on Financial Products

Taxable Event

The tax is generated when a payment or credit is made for interest to resident individuals or entities other than those belonging to the local regulated banking and financial sector.

Rate

10% on gross interest paid to individual and legal entities domiciled in the country, except banks and other entities supervised by the Superintendency of Banks.

Avoidance of Double Taxation on Interest Income

Once the Tax on Financial Products has been paid, the taxpayer is to report their interest income as exempt from Income Tax.

Calculation

The tax basis is determined subtracting the VAT from the amount of the invoice and on this amount calculating 10% of the Tax on Financial Products.

Filing Deadline

First 10 business days following the month of the withholding.

Real Estate Tax

Taxable Event

Owning real estate within the territory of the Republic.

Rates

Rates are applied on the registered value of real estate in Quetzales (US\$ 1.00 = Q7.80 approx), as follows:

From 0 to Q. 2,000 exempted
From Q 2,001 to Q. 20,000 2 per thousand annually

From Q 20,001 to Q. 70,000 6 per thousand annually, and
From Q 70,000 and up 9 per thousand annually

This tax is paid on a quarterly basis.

Stamp Tax

Documents issued, subscribed or granted which contain acts or contracts that are subject to the Stamp Tax, including documents issued abroad intended to have legal effect in the country.

This is a documentary tax, that is to say, it burdens the value of contracts and other documents at a rate of 3%. However, in the case of dividend payments, the 3% Stamp Tax is applicable regardless of whether documentation is generated or not.

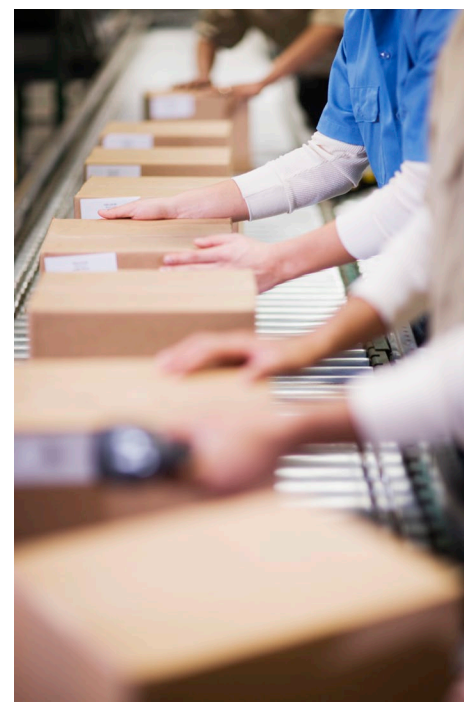
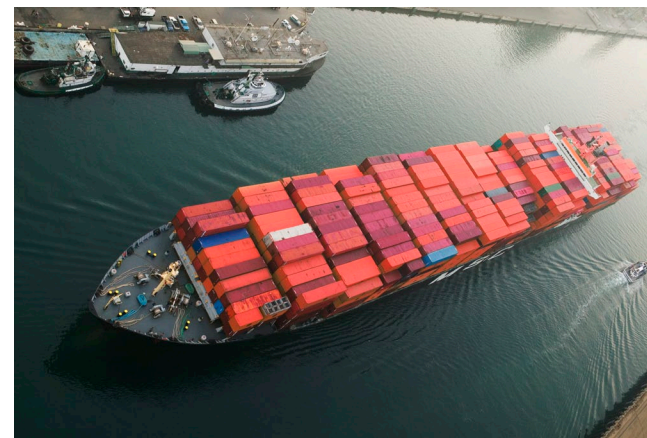
The Stamp Tax does not affect contracts or documents related to transactions liable to VAT, as double taxation is prohibited.

Furthermore, the 3% Stamp Tax applies to dividend payments and documents issued abroad and used locally as documentary evidence for transactions not subject to VAT.

However, using dividend coupons adhered to share title certificates in the case of stock corporations and "commercial invoices" for imported services would seem to make a case for an exemption from stamp duty.

Some documents are subject to specific amounts of Stamp Tax as listed in the corresponding law.

The tax is determined applying the rate to the value of the acts and contracts subject to the tax. The value is reflected on the document, which cannot be lower



than the one registered in the public records, registrations, property registries or in the official listings.

Tax Incentive Laws

The more important tax incentive laws are the following:

Law for the Promotion and Development of Export and Drawback activities:

Companies intending to manufacture products to be exported can be qualified under the Law for the Promotion and Development of Export and Drawback Activities which grants a 1 to 2-year waiver of VAT and import taxes on raw materials, 10-year income tax exemption and other tax benefits.

Recently, this law has provided access to call centers and shared service entities to qualify for the tax benefits of this law. Special considerations should be made on a case by case basis before applying for any qualification.

Perhaps the most important advantage of this law, is that it is not necessary to be in a specific location to obtain the benefits, so companies can operate and enjoy the benefits from wherever they are located.

Trade Zone Laws

Trade and manufacturing companies can also opt to be located at those already-established Free Trade Zones or to set up their own Free Trade Zone if applicable. The tax benefits are similar to that described in the previous section. In addition, recently the Guatemalan Congress authorized that companies can be authorized as Free Trade Zone agencies in their own locations with the same tax benefits as if they are located in a Free Trade Zone area.

Incentive Law for the development of renewable energy projects

This law provides the following tax benefits for the individuals or companies developing renewable energy projects:

1. Exemption from Custom Duties and VAT on the import of machinery and equipment to be used on the project. In this case the exemption should be authorized by Tax Office.
2. 10-year Income Tax exemption as of the starting date of the commercial operations.

4. Taxation System

Absence of Anti Thin Capitalization Rules

In Guatemala, there are no debt/equity requirements when establishing a local subsidiary or branch. The minimum of paid in capital is Q. 5,000 (US\$ 638).

However, there is a provision in the corporate law that establishes that if accumulated losses reach an amount exceeding the 60% of the paid-in capital, the corporation should be dissolved unless shareholders re-invest capital lost in the operations. No Net Operation Losses carry-forward is allowed.

Equity

There are no restrictions to finance local subsidiary through equity.

Since Guatemala has no variable capital rules, and considering that reducing the paid-in capital may imply a complex process, shareholders can opt to put money into the equity section of local corporation Balance Sheet by using the concept of "advances to future capital increases". Even though Guatemalan GAAP requires that these investments be intended to become actual paid-in capital, they can be reverted without the complex procedures, applicable to capital reductions.

Dividends are subject to 3% Stamp Tax with the shareholders being the person liable for the tax. In the case of subsidiaries an exemption is available if the share titles have dividend coupons attached to them (this interpretation, however, is not risk-free).

Debt

There is no limitation on finance a corporation through debt, other than those indicated above.

Financing from abroad can be subject to 3% Stamp Tax on the amount of the principal of the loan being supported in loan contracts or financing agreement. In order to avoid this tax by obtaining an exemption, it is crucial that goods acquired with the loan proceeds or the loan proceeds themselves be imported/entered into the country.

Local financing is exempt from 3% Stamp Tax.

In case of non-interest accruing loans, documentary evidence must exist for avoiding presumed interest income exposure.

For interest accruing loans, the following must be taken into account:

With respect to interest, the Income Tax law establishes that interest payments are deductible in the following cases:

1. Interest on credits and financial expenses directly related to such credits obtained in legally authorized banking, financial and other institutions subject to the oversight and supervision of the Superintendency of Banks.
2. Interest and financial expenses directly related to public offerings of securities registered in the Registry of the Stock and Commodities Market.
3. Interest on credits and financial expenses directly related to such credits ob-

tained in legally constituted Credit Unions.

4. Interest on credits and financial expenses directly related to such credits obtained from banking and financial institutions domiciled abroad.

5. Interest which banking institutions authorized to operate in the country and subject to the oversight and supervision of the Superintendency of Banks and legally constituted Credit Unions pay to their account holders and investors.

6. Interest paid to investors in securities registered in the Stock and Commodities Market.

In addition, the following withholding requirements must be complied with:

- Local payments are subject to 10% withholdings for the Tax on Financial Products (interest tax) when the payee is not a bank or financial institution, and
- The interest payments to foreign entities are subject to an income tax withholding of 10%, except interest on loans when all of the following requirements are complied with: a) the lender is a "first order" banking or financial institution domiciled abroad, b) the loan's principal is invested in generating taxable income and c) the foreign exchange corresponding to the loan's principal is negotiated with (entered into) the national banking system.

Transfer Pricing Rules

There are no specific laws or rules on Transfer Pricing.



5. Labor System and Fringe Benefits

Work Shifts and Ordinary and Extraordinary Salary

The following table summarizes the work shifts as per the Labor Code and their implication in respect to the payment of ordinary or extraordinary salary.

Consideration	Diurnal shift	Mixed shift	Nocturnal shift
Timeframe	Between 6am to 6pm	Overlapping day and night	Between 6pm of one day to 6am of the next day
Working hours a day to be compensated as ordinary wages	8	7	6
Working hours a week to be compensated as ordinary wages	44 which are equivalent to 48 for salary calculation	42	36
Hours to be compensated as extraordinary wages (extraordinary wages is equal to 150% of hourly ordinary wages)	From the 9th hour on	From the 8th hour on	From the 7th hour on
Maximum of hours to be worked per day including ordinary and extraordinary work shifts	12	12	12

"7th Day" Salary

According to Guatemala Constitution, Employer is obligated to grant 1-day off for each ordinary week worked.

Incentive Bonus

In addition to the ordinary and extraordinary salaries, employers are obligated to pay an Incentive Bonus. This bonus has the particularity that is not subject to Social Security taxes and does not accumulate as basis for the calculation of the Christmas bonus, annual bonus or severance. The law establishes a minimum amount of Q250 monthly (US\$ 31)

Fringe Benefits

Benefit	Description	Proportion in relation to salary for accrual purposes	Subject to Social Security taxes (12.67% employer, 4.83% employee)?	Increases the base of calculation of severance?
Ordinary wages		100%	Yes	Yes
Extraordinary wages			Yes	Yes
Social Security tax		12.67% a/		
Incentive bonus			No	No
Christmas bonus	An average of ordinary wages to be computed from December to November and payable 50% in December and 50% in January. Most employers pay 100% in December.	8.33%	Yes	Yes
Annual bonus	An average of ordinary wages to be computed from July to June and payable on July.	8.33%	Yes	Yes
Vacations	15 business days per year worked. (conservative calculation of an accrual is 21 days / 365 days considering that the 15 vacation days will result in 3 calendar weeks of vacation)	5.75%	No	No
Severance	Average of last 6 months ordinary and extraordinary monthly wages per year worked.	8.33% b/	No	No
Total		143.41%		

a/ Actual Social Security liability falls on both ordinary and extraordinary salaries.

b/ This is just a representative number since the actual calculation for severance is based on ordinary as well as extraordinary wages. In addition, the amount of severance includes a proportion for the Annual Bonus, Christmas Bonus and Economical Advantages. Normally, the amount of severance would be 146% of the ordinary and extraordinary wages (average of ordinary and extraordinary monthly wages 100%, 8.33% for Christmas Bonus, 8.33% for Annual Bonus plus 30% of Economical Advantages).

Economical Advantages

Economical advantages consist of all the economical benefits granted by the employer, which said employer has no legal obligation to give. According to Guatemalan Labor law, these advantages constitute 30% of the monthly ordinary wages. However, this percentage may be modified between the employer and the employee in the labor contract, by either raising, lowering or eliminating them completely (subject to interpretation).

6. Commercial International Treaties

INTERNATIONAL BUSINESS INSTRUMENTS CURRENT STATUS FEBRUARY, 2009				
INSTRUMENT	DATE AND NUMBER OF AGREEMENT OF APPROVAL BY THE CONGRESS	DATE OF RATIFICATION	DATE OF PUBLICATION	OBSERVATIONS
FTA CA3 - MEXICO	Decree 86-2000 Dated 11-29-2000	01-04-2001	March 12,13 and 14, 2001	Went into effect on March 15, 2001
FTA CA - DOMINICAN REPUBLIC	Decree 26-2000 Dated 05-18-2000	19-05-2000	October 15, 2001	Went into effect on October 15, 2001
PARTIAL SCOPE AGREEMENT GUATEMALA - CUBA	Decree 28-2000 Dated 01-31-2000	07-10-2000	May 7, 2001	Went into effect on May 18, 2001
FTA GUATEMALA-CHINA(TAIWAN)	Decree 5-2006 Dated 03-06-2006			Went into effect on July 01, 2006
FTA CA - CHILE	Decree 37-98 Dated 04-16-1998	It has not been ratified	It has not been published	Pending to negotiate the lists of tax deductions, the exclusions and the rules of origin. It was suspended because Chile has not wanted to negotiate access to Sugar.
AGREEMENT OF FREE TRADE AND PREFERENTIAL EXCHANGE GUATEMALA-PANAMÁ	06-20-1974	Decree 11-75 Dated 03-13-1975	06-04-1975	Went into effect on March 13, 1975
TREATY ON CENTRAL AMERICAN ECONOMIC INTEGRATION	Decree No. 1435 Datec 04-13-61	04-20-1961	05-06-1961	Went into effect on June 15, 1961
FTA CA - PANAMA				In negotiation process
AREA OF FREE TRADE OF THE AMERICAS ALCA				In negotiation process
FTA CA4 - CANADA				In negotiation process
PARTIAL SCOPE AGREEMENT GUATEMALA - COLOMBIA	Pending approval to become a bill of Law and to be passed as a law.	02-08-2002	Has not been published	It is in renegotiation process by the sectors of Guatemala. (It was signed on August 2)
FTA CA - UNITED STATES OF AMERICA	Decree No. 11-2006		12-22-2005	Went into effect on July 01, 2006
AAUE-CA EUROPEAN UNION ASSOCIATION AGREEMENT-CENTRAL AMERICA	The IV Negotiation Round just started in February 2009			In negotiation process

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