

TAX NEWS July 2023

Executive Summary

Norm	Content	Date
Law No. 7067	Value Added Tax ("VAT") exemptions provided for in Law No. 6,380/2019 (the "Tax Law") for public passenger transportation services, and for other matters, were amended.	July 10, 2023
General Resolution No. 133	The Undersecretariat of State for Taxation ("SET") changed the requirements for registration and assignment of an identifier in the Taxpayer Registry ("RUC") for foreign individuals.	July 14, 2023
General Resolution No. 134	The SET established an exceptional mechanism for submitting the transfer pricing technical study ("ETPT") and supporting documents to rebut the presumption of relatedness with entities that are resident abroad.	July 18, 2023
Binding Consultation	SET issued its opinion on VAT exemption for carbon credits.	February 2023
Binding Consultation	The SET ruled on the incidence of the Dividends and Profits Tax ("IDU") on the formation of treasury stock or acquisition of shares from the same company.	June 2023



More information:

Law No. 7067/2023 - Modifying the VAT exemptions provided for in the Tax Law for public passenger transportation services, and for other matters

Law No. 7,067/2023 amended the exemptions established in the Tax Law on VAT applicable to domestic public passenger transportation services. The new wording of the Tax Law maintains the exoneration set in the VAT for this type of transportation service. However, the modification clarifies that the exoneration is extended to urban, metropolitan or, short, medium and long-distance public transportation services. In other words, the previous wording of the Tax Law, which established that to apply this exoneration, the total round trip itinerary authorized by the competent agency must not exceed one hundred (100) kilometres, was eliminated.

On the other hand, Law No. 7,067/2023 also modified the second paragraph of numeral 5 of article 100 of the Tax Law, which established restrictions to the subjective exoneration of VAT applicable to alienated goods and services rendered by entities that develop or carry out activities of social good or public interest. Under the amendments proposed by Law No. 7,067/2023, the leasing of spaces, carpentry, plumbing, electricity, and catering services rendered by entities that develop or carry out social welfare or public interest activities are exempt from VAT.

It should be noted that, under the original wording of the Tax Law, the development of these activities did not benefit from the subjective VAT exemption applicable to this type of entity. It is essential to mention that Law No. 7,067/2023 did not modify article 25, numeral 2, paragraph "c", third paragraph of the Tax Law; therefore, although the development of the referred activities is exempt from VAT, the income obtained from there is taxed by the Corporate Income Tax ("IRE") for the entities that develop or carry out activities of social good or public interest.

General Resolution No. 133/2023 - The SET changed the requirements for registration and assignment of an identifier in the RUC for foreign individuals

Through General Resolution No. 133/2023 ("RG 133"), the SET amended General Resolution No. 79/2021 ("RG 79") through which the requirements for registration in the RUC, updating of data and cancellation in such registry were regulated. Among the reasons that motivated the SET to issue RG 133, the following are mentioned:

- (a)** The need to update Annex 1 of RG 79, considering the amendments that were introduced by Law No. 6,984/2022 ("Migration Law"), which established the new legal immigration regime in Paraguay.
- (b)** The need to update Annex 2 and Annex 4 of RG 79 to facilitate taxpayers' compliance with their fiscal obligations.

The main novelty introduced by RG 133 is the possibility for foreign individuals to register as taxpayers in the RUC by presenting either of the following two documents issued by the Paraguayan authorities, which are in force: (i) Paraguayan identity card ("C.I."); or, (ii) Paraguayan passport. Previously, RG 79 required foreign individuals to present their permanent residence permit issued by the Paraguayan immigration authority and the identity card or passport of the country of origin to register as a taxpayer in the RUC.

The requirement of the permanent residence permit in the country for registration in the RUC was because, according to Article 2 of the Annex to Decree No. 3,181/2019, permanent residence is equivalent to tax residence in Paraguay. Then, the formal criterion for registration in the RUC of foreign individuals was that they prove their tax residence in the country. This was also reflected in the requirements to obtain the certificate of tax residence in Paraguay since, in this respect, General Resolution No. 65/2020 ("RG 65") only requires an RUC or C.I. to access this document.

However, this became a major inconvenience with the entry into force of the Migration Law, which established stricter conditions to access the permanent residence permit, since now foreign individuals working in Paraguay must previously fulfil two (2) years of temporary residences to access permanent residence (for more information on this point, you can access the newsletter issued on the issue by clicking [here](#)). To address this practical problem, SET changed the documents for the registration of foreign individuals in the RUC, replacing the permanent residence permit card with the C.I. or Paraguayan passport.

It is vital to take into account that with RG 133, a regulatory inconsistency is created since, as advanced, the tax residence in Paraguay is acquired by foreign individuals with the obtaining of the permanent residence permit, as established in Article 2 of the Annex of Decree No. 3,181/2019 which is in force at the date of issuance of this document. Despite this, with RG 133, a foreign individual who obtained his C.I. with the temporary residence permit can register as a taxpayer in the RUC and, thus, be taxed as a Paraguay tax resident and even access the country's tax residence certificate.

On the other hand, according to what is now established by RG 133, the RUC identification number for foreign individuals will be the one that corresponds to the C.I. number, except in the case of refugees. This provision applies to foreigners who register in the RUC as of the effective date of RG 133.

Previously, when foreign individuals registered in the RUC by presenting their permanent residence permit card, they were given the RUC numerical identifier starting with the series 50,000,000. Now, according to RG 133, this RUC series is reserved exclusively for foreign individuals who are refugees, so those who are not refugees must change their RUC identifier through Marangatú to match the C.I. number that they should have according to the following schedule:

RUC Termination	Month in which the change in the identifier must be conducted
0	August 2023
1	September 2023
2	October 2023
3	November 2023
4	December 2023
5	January 2024
6	February 2024
7	March 2024
8	April 2024
9	May 2024

The SET will notify each taxpayer at the beginning of the month when the obligation to make this modification is activated so that they can update their RUC identification number through the "Marandú" electronic tax mailbox of Marangatú.

General Resolution No. 134/2023 - The SET established an exceptional mechanism for the presentation of the ETPT and supporting documents to rebut the presumption of relatedness with entities residing abroad

Through General Resolution No. 134/2023 ("RG 134"), the SET ratified that the obligation to file the ETPT expires on the seventh month after the end of the respective fiscal year, while the third month is the deadline for taxpayers who have transactions with foreign entities to submit the documents that rebut the presumption of relatedness that may be generated concerning them, under the provisions of Articles 9 and 15 of General Resolution No. 115/2022, respectively, which provide as follows:

Closing date of the taxpayer's fiscal year	Month of submission (*)	
	Documents against presumptive relatedness	ETPT
December 31	MARCH	JULY
April 30	JULY (**)	NOVEMBER (**)
June 30	SEPTEMBER (**)	JANUARY

(*) All expiration months are the months immediately following the closing date of the respective fiscal year.

(**) These months occur in the same calendar year as the end of the fiscal year to which the documents refer.

However, exceptionally, for compliance with these obligations in 2023, and even until January 2024, the form of their presentation changes, since, instead of being presented through the "Marangatú" System, they must be entered at the SET's front desk in digital format, on an external storage medium (CD, DVD or USB memory), as follows:

- The documents that disprove the presumed relatedness must be submitted in portable document format (.pdf format) in accordance with the expiration calendar for the termination of the RUC for informative affidavits.
- The ETPT must be submitted in PDF and spreadsheet file extensions (.xls, xlsx or .ods extensions), as appropriate to the ETPT or its worksheets, respectively.

The ETPT submitted in digital format must contain the signature of the authorised professional to issue it until the option is enabled in the "Marangatú" system for the professional to confirm it from their user.



Response to Binding Consultation on VAT exemption for carbon credits

Carbon credits are a tradable economic instrument issued by a carbon manager, which assigns a unit of value to activities that seek to combat the excess of carbon dioxide (CO₂) in the environment. Using this unit of value, the effects of these activities (reduction, avoidance and capture of CO₂) can be objectified, and, thus, their ownership can be transferred to those who acquire them, with the counterpart of funding for those who carried out the project that generated them.

In other words, through carbon credits, the effects of the aforementioned environmental activities are subtracted from a particular subject to become an object through the title in which its value is represented to be traded, which is measured for each ton of carbon equivalent of greenhouse gases (tCO₂eq) that is reduced, avoided or captured from the environment by the actions of a specific project.

With this in mind, a taxpayer asked the SET whether the sale of carbon credits, carbon bonds or Verified Carbon Units ("VCUs") is exempt from VAT under the category of public and private securities, to which the SET confirmed such exemption under article 100, numeral 1, paragraph a), of Law 6.380/19.

Response to the Binding Consultation on the impact of the IDU on the formation of treasury stock or acquisition of treasury stock

In the dynamics of the shareholders of a corporation, it may be the case that the corporation itself wishes to buy the shares issued by it from its shareholders. This is known as the acquisition of own shares or treasury stock. Article 1072 of the Paraguayan Civil Code regulates this situation, providing that the repurchase of shares issued by a company can only be made in sums coming from the net and realized profits, provided that the shares are integrated.

In this context, a taxpayer asked the SET whether or not this treasury stock transaction, to be paid with funds from net profits, approved by the meeting and transferred to the optional reserves account, constitutes a distribution of profits that would be subject to the IDU. Given this, the SET referred that the distribution taxed by the IDU occurs when the excess of the legal reserve, the optional reserves or the capital by reduction thereof, when integrated by capitalization of undistributed profits or reserves, are made available to the partner or shareholder.

In this case, since the purchase of the treasury stock would be made with funds whose counterpart would be the optional reserves that were integrated with liquid profits, the SET concluded that such treasury stock operation constitutes distribution of profits, dividends or yields reached by the IDU, at the corresponding rate.

Contact



Rodolfo G. Vouga
Partner
rgvouga@vouga.com.py
+595 21 202049



Andrés Vera
Associate
avera@vouga.com.py
+595 21 202049



Horacio Sánchez
Associate
hsanchez@vouga.com.py
+595 21 202049