

Paraguay's Free Zones in 2026: Where the Regime Fits — and Where It Does Not

A practical investment analysis of the tax advantages, domestic-market limits, Mercosur origin rules and the reform now under discussion

Paraguay's free-zone regime offers an unusually favorable customs and tax framework, but it is not a general substitute for ordinary taxation or Maquila. Its economic value depends on where the company operates, where its customers are located, how goods move through the supply chain and whether products intended for Mercosur satisfy the applicable origin rules. In 2026, the regime has become more relevant because Mercosur updated its free-zone framework and Paraguay is actively preparing a modernization of Law 523/1995.

19 October 2026

Free zones at a glance

Feature	Current framework	Investor implication
Legal form	Physical customs enclave under Law 523/1995; user operates under contract with a concessionaire.	The location and concession contract are part of the investment decision.
Third-country exports	0.5% Free-Zone Tax on gross income from qualifying sales to third countries.	Very light taxation can be attractive for export, trading and logistics models.
Goods entering the zone	Exempt from import duties and other internalization taxes, except charges for services actually rendered.	Imported inputs and equipment can enter without ordinary customs cost while they remain in the regime.
Sales into Paraguay	Permitted, but customs and income-tax consequences arise when goods or services move into the ordinary customs territory.	Domestic-market businesses require separate modelling; the zone is not a tax-free route into Paraguay.
Mercosur sales	Preferential access depends on the applicable Mercosur origin rules and documentary requirements.	The NCM classification and origin calculation must be analyzed before investment, not after production begins.

1 Why the regime is back on the investment agenda

When foreign investors look at Paraguay's special regimes, Maquila usually receives most of the attention. That is understandable: the regime is now a central part of the country's export-oriented industrial policy and was comprehensively modernized by Law 7,547/2025 and its 2026 implementing decree. Free zones are older, less visible internationally and more closely associated with Ciudad del Este. Yet their underlying logic is different enough that they should not be treated as a secondary version of Maquila.

Under Law 523/1995, a free zone is an area physically located in Paraguay but separated from the ordinary customs territory for the purposes of the regime. Commercial, industrial

and authorized service activities may be carried out inside that area under special customs and tax rules. This can suit international distribution centers, re-export operations, processing of imported inputs, selected manufacturing activities and internationally supplied services. The attraction is strongest when Paraguay is used as part of an international value chain rather than as the final consumer market.

Two developments make the subject particularly timely in 2026. First, Mercosur Decision CMC 2/2025, incorporated in Paraguay by Decree 6,031 of 13 May 2026, entered into force across the bloc on 2 July 2026 and updated the framework applicable to goods moving through free zones, export-processing zones and special customs areas. Second, the Ministry of Industry and Commerce has publicly confirmed that it is working on a new free-zone bill intended to modernize a statute that is now more than thirty years old. The current regime remains in force, but investors with a long project horizon need to understand both the existing law and the direction of reform.

2 A free zone is a location and contractual structure, not simply a tax election

The first practical point is also the most important. A company does not obtain free-zone treatment merely by electing a tax status. It must become a user of an authorized zone and operate within the physical and contractual framework of that concession. The Ministry of Economy and Finance distinguishes between the concessionaire, which is the legal entity authorized by the State to develop and administer the zone, and the user, which may be a Paraguayan or foreign individual or legal entity carrying out authorized activities inside it.

The user relationship is formal. The applicant presents its project to the concessionaire, enters into a user contract and registers that contract with the National Council of Free Zones. The 1996 implementing decree provides that the user agreement is not enforceable against third parties until it is registered. Users must also comply with the ordinary legal requirements applicable to merchants, maintain the records required by the regime and, where applicable, register with the tax administration for free-zone activities.

This creates a fundamental difference from Maquila. A maquiladora can operate from an approved industrial or service location elsewhere in Paraguay, provided it complies with its programme. A free-zone user is tied to a specific concession and its infrastructure. That may be a disadvantage for a company whose priority is proximity to a particular labor pool, supplier or customer. For a logistics, warehousing or re-export business, however, the controlled customs environment, on-site services and physical separation may be exactly what the business model requires.

3 The tax and customs advantages are substantial, but they have boundaries

The headline fiscal treatment is exceptionally favorable. Article 13 of Law 523 exempts authorized free-zone activities and their results from national, departmental and municipal taxes, except for the specific tax regime established by the law. Article 14 then imposes the Free-Zone Tax at 0.5% on gross income from sales to third countries by users engaged exclusively in commercial, industrial or service activities for export. The current MEF summary presents the same 0.5% rate as the central tax benefit for third-country exports.

The customs treatment is equally important. Goods, raw materials and equipment introduced into a free zone from abroad or from the ordinary customs territory are exempt from import or internalization taxes, subject to charges for services actually rendered. Capital goods can also enter under the exemption. For a business that imports merchandise or components, stores, processes or assembles them in Paraguay and then exports them

again, this avoids the cash and cost burden that would arise if the goods first had to be imported into Paraguay for domestic consumption.

The law also contains broad exemptions for the structure surrounding the user. The official MEF guidance identifies favorable treatment for the incorporation of user companies, remittances of profits or dividends to third countries and payments to foreign providers for royalties, commissions, fees, technical assistance, technology transfer, loans, financing and equipment rental. These benefits can be economically significant in capital-intensive or internationally financed projects.

The regime should nevertheless not be described simply as 'tax free'. The exemptions apply to authorized free-zone activities. Operations outside that perimeter remain subject to the ordinary tax system. Services have their own regulatory conditions, domestic-market sales require separate treatment and the company still has accounting, customs, registration and reporting obligations. The correct analysis is therefore the effective tax and customs burden on the particular flow of goods or services, not the headline 0.5% rate in isolation.

4 The domestic market is the dividing line

A free zone becomes less straightforward when the final customer is in Paraguay. Law 523 allows sales into the ordinary customs territory, but it does not allow a user to bypass the Paraguayan border simply because the goods are physically inside the country. Article 20 provides that goods imported from a free-zone company into the customs territory are subject to the applicable import taxes and tariffs, except where the relevant industrial product qualifies for the origin treatment recognized by Paraguayan law or an applicable international agreement.

The statute also contains specific income-tax rules for users that combine third-country exports with domestic sales, including a 10% threshold and differentiated treatment when domestic sales exceed that level. Because the wording of the 1995 law predates the current corporate income-tax architecture, the interaction with today's IRE rules should be reviewed before relying on any domestic-sales model. The central commercial point remains clear: a free zone works most naturally when the company's flows are outward-facing.

The reverse movement is favorable. Sales of goods from the Paraguayan customs territory to free-zone users receive export treatment, and DNIT has confirmed that such sales are VAT-exempt. Services supplied to free-zone users are also exempt when they satisfy the applicable conditions, including where the service is performed within the zone. Transactions between free-zone users likewise benefit from the special regime. This creates a genuine customs and tax boundary around the zone, but it is a boundary in both directions.

5 Services have become much more important than the 1995 statute suggests

The original free-zone law was written for an economy in which international services were far less important than they are today. The legal text refers to commercial, industrial and service activities, but subsequent decrees have progressively widened the authorized service categories for international markets. Decree 952/2018, later amended by Decree 4,611/2020, and DNIT Resolution 80/2021 now provide the operational framework for a broader range of export services.

The authorized universe extends beyond conventional warehousing and maintenance. It includes, subject to the applicable regulation, logistics and transport support, packaging and labelling, technical assistance, research and testing, certain professional and business services, telecommunications and IT, data processing, software development, BPO, audiovisual production, engineering, biotechnology and selected back-office activities. For

service users, registration with DNIT is required and the relevant service must be expressly identified in the user contract. The tax administration also requires the corresponding free-zone tax return when authorized services are performed.

This matters because the free-zone regime is no longer only a customs tool for physical goods. In some cases it can compete with Maquila or the ordinary Paraguayan tax system as a platform for international services. The comparison must still be business-specific: a service company that does not need to be physically inside a free-zone concession may find the location requirement an unnecessary cost, even if the tax treatment is attractive.

6 Free Zone versus Maquila: the tax rate is not the right comparison

Issue	Free Zone	Maquila
Location	Must operate inside an authorised free-zone concession.	Can operate from an approved location under the Maquila programme.
Core tax	0.5% on qualifying gross income from third-country exports.	1% on Paraguayan value added or export invoice value, whichever is higher.
Commercial logic	Trading, storage, distribution, processing, industry and authorised international services.	Production or services carried out under an approved programme for a foreign principal.
Customs model	Goods remain inside a separate customs regime until exported or entered into the domestic territory.	Temporary admission/suspension mechanisms for programme inputs and capital goods.
Mercosur origin	Not automatic; depends on current Mercosur origin rules and documentation.	Also not automatic; preferential access requires the relevant origin rule.

A superficial comparison suggests that 0.5% must be better than 1%. That is not how the regimes work. Maquila is designed around an approved production or service programme performed for a foreign principal. Its 1% tax applies to Paraguayan value added or the export invoice value, whichever is higher, and the regime includes customs suspension, specific income-tax exemptions and VAT recovery mechanisms. Free zones, by contrast, are physical customs enclaves with a broader role for storage, trading, regional distribution and certain services.

For a manufacturer supplying Brazil from a dedicated plant in Paraguay, Maquila may be a more natural fit. For an international group importing goods from several countries, consolidating, packaging or processing them and redistributing them to multiple markets, a free zone may better reflect the commercial reality. The relevant comparison is the total customs, tax, logistics, property, labour and compliance cost of the actual operating model.

7 Mercosur origin rules are the decisive issue for regional sales

Free zones create a structural tension inside a customs union. If third-country goods could enter a free zone without paying the Mercosur Common External Tariff, undergo only limited handling and then circulate freely within Mercosur, the common tariff could be circumvented. Mercosur has therefore maintained specific rules for goods produced in or passing through free zones, export-processing zones and special customs areas.

The framework changed materially in 2026. Decision CMC 2/2025 amended the regime created by Decision 33/2015. Paraguay incorporated the measure through Decree 6,031/2026, and the Mercosur legal database records the decision as in force from 2 July

2026 after incorporation by all four founding members. Directive CCM 149/2026 subsequently updated the lists used in implementing the relevant free-zone rules. These changes make the current framework more precise, but they do not create a blanket rule that goods manufactured in a Paraguayan free zone may enter Brazil or Argentina duty-free.

The decisive question remains origin. Investors need the correct NCM classification, the applicable product-specific origin rule, the origin of imported inputs, the transformation performed in Paraguay and the documentation required to prove origin. In practice, a few percentage points of tariff can determine whether an industrial project is viable. Origin analysis should therefore be part of the investment model before machinery is ordered or the production process is designed.

This is also where free zones and Maquila converge. MIC guidance on the new Maquila regime expressly notes that zero-tariff access to Mercosur depends on satisfying the applicable origin requirements. The same discipline applies to free-zone production. Neither regime is a legal shortcut around Mercosur origin.

8 Location and the concessionaire require their own due diligence

Ciudad del Este has an obvious historical logic for free-zone activity. It sits beside Brazil, is connected to Foz do Iguaçu and a very large consumer and industrial market, and has developed a dense commercial and logistics ecosystem. The MIC has also highlighted higher-value projects in the Zona Franca Global involving medical products, aerospace-related technology and renewable-energy solutions, showing that the regime can support activities far removed from conventional duty-free trading.

The law nevertheless allows free zones elsewhere in Paraguay, and the economic map is changing. The Bioceanic Corridor, river logistics, Greater Asunción's industrial expansion and new foreign investment projects can justify specialised customs locations in places that would have been less compelling two decades ago. An investor should therefore evaluate the zone as an operating site, not just a legal regime.

The concessionaire is part of that analysis. Infrastructure quality, warehousing capacity, utilities, customs facilities, security, internal rules, lease economics and the ability to expand all depend partly on the private operator. The user agreement, concession term, tariff schedule, internal regulations and infrastructure commitments should therefore be reviewed alongside the statute. A tax advantage can be eroded quickly by poor logistics or a site that cannot scale with the business.

9 The proposed reform is an opportunity, but the current law still governs

One weakness of the regime is institutional rather than fiscal: its core statute dates from 1995. Since then, supply chains, digital services, e-commerce, electronic customs control, origin rules and international tax compliance have changed profoundly. Paraguay has adapted through decrees and administrative regulations, including the expansion of authorised international services, but the overall framework is less conceptually modern than the recently reformed Maquila regime.

The government now appears to recognise this. The MIC's 2026 roadmap identified a new free-zone law as a policy objective, and in June 2026 the ministry reported progress on a draft bill intended to strengthen the services component and modernise the regime. As of October 2026, however, the official MEF and DNIT materials continue to treat Law 523/1995 as the operative statutory basis. Investors should therefore structure projects under the current law and monitor the reform rather than assuming that a new regime has already been enacted.

This distinction matters for investment planning. A new law could improve clarity, extend the services model or modify governance, but it could also alter conditions for future projects. Existing users benefit from a stability clause in Article 13 of Law 523, which provides that subsequent tax-law changes do not apply to those already under the regime unless they opt into the new rules. The scope and interaction of that protection with any future reform should nevertheless be examined when the final legislative text is available.

10 Which investors should examine the regime seriously?

The strongest candidates are businesses whose physical and commercial flows naturally remain outside Paraguay's domestic customs territory. Regional distribution centers, re-export platforms, imported-goods consolidation, packaging and labelling operations are obvious examples. Some manufacturers using imported components can also fit well, particularly where the final market is outside Mercosur or where the finished product clearly satisfies the relevant Mercosur origin rule.

International service businesses can also be candidates, especially where the authorized activity genuinely benefits from the zone's infrastructure or contractual ecosystem. Technology, laboratory, software, BPO, engineering and selected back-office activities may qualify, but they should compare the free-zone model with Maquila and ordinary Paraguayan taxation. A low tax rate does not compensate for an unnecessary physical-location constraint.

The weakest candidates are generally companies whose principal customer is the Paraguayan domestic market. For them, placing the business behind a customs boundary can create complexity rather than value. The better approach is to map the actual movement of goods and services: where inputs originate, where transformation occurs, where customers are located, where title changes hands, what origin rule applies and what tax is triggered at each border.

Conclusion: an underused regime, but only for the right operating model

Paraguay's free zones deserve more attention than they normally receive in international investment discussions. The combination of duty-free entry into the zone, broad tax exemptions, favorable treatment of international financing and services, and a 0.5% tax on qualifying third-country exports can create a highly competitive structure. The 2026 Mercosur changes and the government's decision to modernize the law make the regime more strategically relevant, not less.

But the tax rate is not the investment thesis. A free zone works when its customs geography matches the company's commercial geography. Domestic sales, Mercosur origin, the physical location of the concession and the quality of the concessionaire can all be more important than the nominal 0.5% rate. For a foreign investor, the correct decision is therefore not to compare four headline regimes on a spreadsheet. It is to model the full supply chain and choose the Paraguayan structure that best fits the real transaction.

Sources

1. [Ministry of Economy and Finance — Free Zones: current regime, users, benefits and domestic-market treatment](#)
2. [Congress of Paraguay / BACN — Law 523/1995, Free-Zone Regime](#)
3. [DNIT — Users of Free Zones and implementing regulations](#)
4. [DNIT — Resolution General 80/2021 on the register of free-zone users and international services](#)

5. [MERCOSUR — Decision CMC 2/2025: Free Zones, Export Processing Zones and Special Customs Areas](#)
6. [MERCOSUR — Directive CCM 149/2026: updated annex lists](#)
7. [MIC — Progress on the bill to modernise Paraguay's free-zone regime, 2 June 2026](#)
8. [MIC — 2026 trade and services roadmap, including a new free-zone law](#)
9. [MIC — Maquila regime under Law 7,547/2025](#)
10. [MIC — Free-zone technology investment in Alto Paraná](#)

© 2026 Pedro Moreira / Paraguay Business Hub. All rights reserved.

This article is provided for general informational purposes only and does not constitute legal, tax, customs or investment advice. The treatment of a free-zone project depends on the specific activity, user contract, location, product classification, origin rules, customer market and legislation in force at the time of the transaction.