

Paraguay Rewrote Its Investment Incentives

What Foreign Investors Need to Know in 2026

Paraguay entered 2026 with a substantially modernised investment framework. Two laws enacted in September 2025 — the new general investment-incentive regime and a replacement for the country's long-standing Maquila law — are now fully operational following their 2026 regulations. The reforms preserve Paraguay's traditionally low-tax approach but make an important distinction clearer: investing in Paraguay is not the same thing as qualifying for a special tax regime. For international investors, choosing the correct structure before committing capital can materially change the economics of a project.

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For more than three decades, foreign investors considering Paraguay were repeatedly introduced to two numbers: the 10% corporate income-tax rate and the 1% Maquila tax.

Both remain relevant. But the framework surrounding them has changed.

In September 2025 Paraguay replaced the historic Law 60/90 with **Law No. 7548/2025**, establishing a new regime of fiscal incentives for national and foreign investment. At the same time, **Law No. 7547/2025** replaced the Maquila legislation dating from 1997 and expressly modernised the regime to cover both manufacturing and export services. Both systems were subsequently regulated during 2026.

The changes are timely. By July 2026, projects approved under what the Ministry of Industry and Commerce now calls the **Investment Attraction Regime** had reached USD 448 million for the year, 32% more than during the same period of 2025. Meanwhile, Maquila exports reached USD 860 million in the first seven months of 2026, up 28% year on year, and the sector was associated with 38,905 jobs.

The figures suggest that the incentives are no longer marginal instruments. They are becoming part of Paraguay's industrial model.

The important question for an investor is therefore not simply: *Are taxes low in Paraguay?*

It is: **Which tax and investment regime corresponds to the economic substance of the project?**

Start with the ordinary tax system

Paraguay already begins from a relatively light corporate-tax base.

The general **Corporate Income Tax — Impuesto a la Renta Empresarial, or IRE — is 10% of net taxable income**. VAT is generally levied at 10%, with a 5% rate applying to certain transactions.

However, international investors should be careful with the frequently repeated description of Paraguay as a simple "10-10-10" tax jurisdiction.

Corporate distributions create a second tax layer. Under the **Dividend and Profit Tax — IDU — distributions to Paraguayan residents are taxed at 8%, while distributions to non-residents are taxed at 15%**.

The arithmetic matters.

If a Paraguayan subsidiary earns 100 before corporate tax, the ordinary IRE reduces this to 90. If the entire balance is subsequently distributed to a foreign shareholder, the 15% IDU amounts to 13.5. The combined Paraguayan tax burden on fully distributed profit is therefore 23.5, leaving 76.5 for the shareholder before any tax consequences in the investor's home jurisdiction.

That is still competitive by international standards, but it is clearly different from saying that foreign investors simply pay "10%".

Paraguayan-source income received by non-residents can also fall within the **Non-Resident Income Tax, or INR**, whose statutory rate is 15%, subject to the applicable rules for determining the taxable base and withholding obligation.

This ordinary framework should be the starting point for every investment model. Special regimes should then be analysed as exceptions that alter particular taxes or transactions.

Law 7548 is an investment incentive — not a zero-tax corporate regime

This distinction is especially important when considering Law 7548.

The new law replaces Law 60/90 but preserves its fundamental logic: reduce the fiscal cost of making productive investments rather than exempt ordinary business profits across the board.

Its most broadly applicable incentives concern **capital expenditure**.

Approved projects can obtain exemption from customs duties on imported capital goods and exemption from VAT on the importation or local acquisition of qualifying capital goods. The regime also permits an exempt first transfer of qualifying capital goods between beneficiaries and introduces mechanisms allowing such assets to be used through a guarantee trust structure to support project financing.

For a capital-intensive operation, this can be economically significant.

Imagine a manufacturing project that requires USD 10 million of imported machinery before producing its first unit. Even where the investor ultimately has access to input-VAT recovery, financing VAT during construction creates a working-capital cost. Customs duties can become an outright capital cost.

Removing those amounts at the investment stage improves project economics immediately.

This is why Law 7548 should be analysed primarily through the **capital budget**, not merely through the income statement.

An investor deciding between two countries should ask what it costs to get a factory, processing plant, agricultural facility or logistics operation operational after tax and customs treatment — not simply compare nominal corporate-tax rates.

Large investments receive additional advantages

The new regime becomes more generous when an individual project reaches **USD 13 million**.

For qualifying projects at or above that level, Law 7548 allows exemption from INR on interest, commissions and surcharges remitted to qualifying foreign banks, financial institutions or other recognised international credit institutions in connection with financing the approved project. The exemption applies during the financing period.

This can be important for leveraged infrastructure or industrial investment.

Consider a project financed partly through a foreign syndicated loan. The relevant comparison is not simply the lender's stated interest rate. Withholding taxes can increase the effective cost of foreign debt or require gross-up clauses under which the Paraguayan borrower bears the tax.

An INR exemption can therefore reduce the all-in financing cost.

The same USD 13 million threshold can also unlock one of the law's most valuable benefits: **a ten-year IDU exemption on dividends, profits and returns generated by the approved investment**. For non-resident investors, the exemption is subject to conditions concerning the jurisdiction from which the investment originates and whether the Paraguayan tax would otherwise constitute a credit in the investor's home country.

That qualification is important.

A tax exemption has less economic value when the same amount would simply have been collected by another jurisdiction through the investor's home-country tax system. International tax structuring therefore remains relevant even in a low-tax jurisdiction.

For large projects, the location of the holding company, applicable double-tax treaties, foreign tax-credit rules and global minimum-tax exposure should consequently be analysed together rather than in isolation.

The new system is more selective than the old "bring capital and obtain exemptions" narrative

Law 7548 also signals a change in philosophy.

The regime explicitly links incentives to economic-development objectives such as production, permanent employment, technology, local value added, supplier development and the productive use of Paraguayan resources.

The 2026 regulation makes this concrete. The Ministry of Industry and Commerce currently uses an employment benchmark of **two workers for every USD 50,000 invested**. A project falling below that benchmark can still qualify, but it must justify a significant and measurable contribution to other statutory objectives.

This matters especially for highly automated investment.

A USD 20 million industrial project employing only 60 people should not assume that the headline capital figure alone guarantees approval. Its investment dossier should demonstrate why the project nevertheless benefits Paraguay — perhaps through technology transfer, export generation, local procurement, energy efficiency, supplier development or unusually high productivity.

The practical consequence is that incentive applications should be treated as **investment projects rather than tax forms**.

Technical assumptions, employment forecasts, financing, production capacity, environmental approvals and implementation schedules all need to be coherent.

The MIC states that the Council of Investments has up to 60 calendar days to issue its opinion, after which the relevant bi-ministerial resolution should be issued within a further 15 days. The Ministry currently gives an average processing time of approximately 45 days for properly presented applications.

That timetable is short enough to integrate the incentive application into project planning — provided it begins before machinery is ordered and investment decisions become irreversible.

Tourism and entertainment have entered the investment regime

Another noteworthy change is the explicit recognition of large tourism and entertainment projects.

Investments of at least **USD 20 million** in qualifying tourism and entertainment activities may obtain customs-duty and VAT exemptions on imported capital goods.

This broadens the regime beyond Paraguay's traditional industrial focus.

Large hotels, integrated tourism developments, leisure infrastructure and similar projects can involve substantial imported equipment even though they are technically service businesses. The reform recognises that capital formation is not confined to manufacturing.

Foreign investors should nevertheless avoid assuming that every hotel or real-estate development qualifies. The USD 20 million threshold and project-approval requirements make this a regime aimed at investments of significant scale.

Maquila answers a completely different question

Law 7548 and the Maquila regime are frequently mentioned together, but economically they solve different problems.

Law 7548 asks:

How can Paraguay reduce the tax cost of making a productive investment?

Maquila asks:

How should Paraguay tax an operation fundamentally organised to produce goods or services for a foreign customer?

Under Law 7547, a Paraguayan company may operate under a Maquila contract with a company established abroad, producing goods or providing services in Paraguay for foreign use. The reform expressly incorporates export services into the statutory definition of Maquila.

Qualifying activities are subject to a **single Maquila tax of 1%**, calculated on Paraguayan value added or the export invoice value, whichever is higher. Maquila income is exempt from IRE, IDU and INR, while temporary imports used by the programme receive the corresponding customs treatment.

This is fundamentally different from a 10% corporate-tax company receiving an exemption on imported machinery.

A Maquila project operates inside a separate export-oriented fiscal architecture.

Services may be the most strategically important part of the reform

Historically, Paraguay's Maquila success was associated primarily with physical manufacturing: automotive components, garments, plastics, aluminium products and food.

That remains important. But the new law may have its largest long-term effect outside factories.

It now expressly accommodates **Maquila services destined for customers located abroad**. The legislation also gives service maquiladoras access to VAT-credit recovery, subject to a maximum refund equal to 0.5% of Paraguayan value added or the export invoice amount, whichever is higher. Professional fees are excluded from that particular refund mechanism.

Paraguay already had almost 4,000 jobs linked to intangible-service Maquila activities before the new framework was fully implemented. The MIC has cited software development, contact centres and similar exported services among the activities capable of operating through the regime.

This potentially changes the investment narrative.

Maquila no longer needs to mean importing components from Brazil, assembling them in Ciudad del Este and exporting the finished product back across the border.

It can also mean employing Paraguayan developers, administrative staff, customer-support personnel or other teams to provide services to foreign companies.

That matters because service exports require relatively little physical infrastructure. They can scale faster, create urban professional employment and reduce Paraguay's dependence on transport geography.

Maquila is attractive, but it imposes operational discipline

The 1% rate should not obscure the regime's requirements.

A Maquila operation needs an approved programme, a contractual relationship with a foreign matrix or customer and ongoing compliance with the rules governing imports, exports, inventory, production and reporting.

The new law gives approved programmes a maximum initial benefit period of **20 years**, with the possibility of renewal subject to compliance. It requires operations to begin within 18 months after programme approval unless an authorised extension applies.

Domestic sales are also restricted. Pure maquiladoras may sell locally only within the statutory limit — generally up to 10% of the previous year's export volume — and those sales require nationalisation and payment of the applicable domestic taxes.

This makes Maquila unsuitable for a business whose real economic purpose is selling primarily to Paraguayan customers.

Attempting to fit a domestic business into an export regime merely because the headline tax rate is lower creates unnecessary regulatory and tax risk.

The correct structure should follow the business model.

The 2026 numbers show where the market is moving

The early results of the reforms are already visible.

By July 2026, the Investment Attraction Regime had approved **116 projects representing USD 448 million**, including USD 114 million of foreign capital.

Maquila was expanding even faster. Exports reached **USD 860 million during January–July 2026**, 28% more than a year earlier. Seventeen new programmes were approved in July alone, taking the year-to-date total to 42 new programmes involving USD 59 million of projected investment and 1,946 jobs. Employment associated with Maquila had risen to 38,905.

This does not prove that every subsidised project creates net economic benefits. Tax incentives always involve a fiscal cost, and governments should continuously test whether incentives are generating investment that would not otherwise occur.

But from an investor's perspective, the numbers demonstrate something more practical: **these are active regimes being used at meaningful scale, not legislation sitting unused in the statute book.**

The practical decision for a foreign investor

A company considering Paraguay in 2026 should therefore model at least three alternatives.

The first is an ordinary Paraguayan company subject to the normal IRE, VAT and distribution-tax framework. For businesses serving Paraguay's domestic market with limited capital expenditure, this may be entirely adequate. A 10% corporate tax rate is already low enough that obtaining a special regime may add complexity without creating proportional value.

The second is a company operating normally but obtaining Law 7548 incentives for a qualifying investment project. This structure becomes particularly attractive where imported machinery, local capital goods or international project financing represent a large portion of total investment.

The third is Maquila, where the business itself is fundamentally export-oriented and the contractual and operational structure satisfies the regime.

These alternatives should be compared using projected cash flows rather than headline rates.

VAT timing, customs costs, dividend taxation, debt withholding, compliance expenses, local-versus-export sales, employment commitments and the investor's home-country tax treatment can change the result.

Conclusion

Paraguay's investment proposition has become more sophisticated.

Its appeal is no longer adequately described by repeating that corporate income tax is 10% and Maquila is taxed at 1%. Those numbers are correct, but they do not explain when each regime applies or where the real economic advantage arises.

Law 7548 reduces the cost of capital formation and provides additional incentives for sufficiently large projects. The new Maquila law modernises one of Paraguay's most successful export regimes and gives services a much clearer place within it. Meanwhile, ordinary Paraguayan taxation remains comparatively moderate for projects that need neither system.

For international investors, this produces a favourable but more demanding environment.

The opportunity lies not in searching for the lowest published tax rate. It lies in aligning the **legal structure, investment programme, financing model and commercial reality of the business** before capital is committed.

In Paraguay in 2026, tax efficiency increasingly begins with investment design.

Sources

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