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Paraguay: Mercosur, Territorial Tax, and the Most Affordable Way into South America

Residency for $5,000, a 10% income tax, and access to a $5 trillion Mercosur market

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CHAPTER 1

Paraguay: The Cheapest Permanent Residency in the World

Paraguay is a landlocked country in the center of South America with a population of 7.4 million. Its capital is Asunción. It is one of the jurisdictions most overlooked by the entrepreneurial world, and it offers a unique combination: a territorial tax, cheap permanent residency, and access to Mercosur.

Simple Residency (Residencia Simple): the fastest and cheapest route to permanent residency in the world. Requirements: a passport; an apostilled birth certificate; a police clearance from your country of residence; a medical certificate; and a $5,000 deposit in a Paraguayan bank account (you can withdraw it after receiving residency, but most people leave it). Time to receive: 30–60 days. Cost (lawyer and fees): $1,000–2,000 additional.

What Residencia Simple gives you: a permanent right to live in Paraguay. You can apply for citizenship after 3 years. There is no minimum annual residence requirement in Paraguay (unlike in most countries). This matters for nomads, who can hold Paraguayan residency and hardly ever be there.

The path to citizenship: 3 years after receiving residency. There is no language requirement (Spanish is not required for naturalization, although knowing it is welcome). There is no continuous residence requirement. Dual citizenship is allowed. The Paraguayan passport gives visa-free entry to 135+ countries including the Schengen Area (60 days without a visa), the UK, Japan, and South Korea. The US still requires a visa.

The $5,000 deposit: many people ask whether it can be returned. Technically, after you receive residency you can withdraw the money. In practice, most immigration agents and lawyers recommend leaving it at least for a while (until you get your cédula, the Paraguayan ID card). Banks do not object to

withdrawal, but having no account complicates some procedures.

Why few people know about Paraguay: the language (Spanish) is a barrier for many. The country is not on the tourist radar. It has no “sexy” narrative like Dubai or Portugal. But that is exactly why there is little competition, little scrutiny, and a welcoming attitude toward foreigners.

CHAPTER 2

Territorial Tax: How the Paraguayan System Works

Paraguay applies the territorial principle of taxation, one of the purest in the world. No income from foreign sources is taxed in Paraguay.

Personal Income Tax (IRE, Impuesto a la Renta Empresarial): a flat rate of 10% on income from Paraguayan sources. There is no progressive scale. There are no social contributions for the self-employed. 10% is all there is.

What is not taxed: any income received from foreign sources. Dividends from foreign companies. Capital gains from the sale of foreign assets. Royalties from foreign sources. Consulting services for foreign clients (if the work is performed outside Paraguay). That is 0%, not 10%.

Corporate tax: IRE (Impuesto a la Renta Empresarial) is 10% on a company's Paraguayan income. A Paraguayan company's foreign income is out of scope (inaplicable) and taxed at 0%. IVA (VAT): 10% standard, 5% on basic goods. Dividends from a Paraguayan company: IVA Dividendo of 5%.

What counts as Paraguayan-source income: rent from Paraguayan real estate. A salary from a Paraguayan employer. Consulting for Paraguayan clients. Trading on the Paraguayan market.

A practical calculation for a digital entrepreneur: you live in Paraguay and work for clients in the US and Europe. Your income is $200,000/year. Paraguayan-source income: $0 (all clients are foreign). Paraguayan tax: $0. Personal tax on foreign income: $0. Total tax burden: 0%.

Does this sound too good to be true? It is not. It is set out in Ley 2421/04 (the Tax Reform Law). Paraguay openly applies the territorial principle. Leading Paraguayan lawyers confirm that

foreign income is not taxed. This is not a scheme. It is the law.

CHAPTER 3

A Paraguayan Company: SA and SRL

Opening a company in Paraguay is a more complicated process than in Estonia or Georgia, but entirely achievable with a local lawyer.

Sociedad Anónima (SA): the equivalent of a joint-stock company. Minimum capital: there is no legal minimum (in practice $1). 3 founding shareholders at registration (afterward the shares can be consolidated with a single owner). 3 directors are required. Shares: registered or bearer shares. Suitable for medium and large companies, for those who want to sell a stake in the future, and for raising capital publicly.

Sociedad de Responsabilidad Limitada (SRL): the equivalent of an LLC. Minimum capital: there is no strict minimum. 2–25 members (cuotapartistas). It is managed by gerentes. It is more flexible for small business. Suitable for small and medium-sized businesses, for family companies, and for solo foreign entrepreneurs (through 2 members: you plus a nominee).

Registration procedure: a notary draws up the Acta Constitutiva (the founding document). Registration with the DGRP (Dirección General de los Registros Públicos). Registration with the MIC (Ministerio de Industria y Comercio). Obtaining the RUC (Registro Único del Contribuyente), the tax number. Time: 2–6 weeks. Cost (with a lawyer): $500–1,500.

RUC (the tax number): the RUC is needed for everything: opening an account, paying taxes, issuing invoices. It is obtained from the SET (Subsecretaría de Estado de Tributación). Tax returns are filed through e-kuatia (the online system).

Banks for business: Banco Continental. Banco Familiar (friendly to foreigners). Bancop. Itaú Paraguay. Opening an account as a foreigner requires residency (preferably) or a minimum presence in the country, along with the company documents, RUC, and

passport. It usually takes 1–2 weeks after all the documents are submitted.

An important limitation: Paraguay is not connected to SEPA. SWIFT transfers are international. Payoneer and Wise work with Paraguayan accounts. Stripe does NOT work for Paraguayan companies (the country is not on the list of supported countries).

CHAPTER 4

Mercosur: A $5 Trillion Trade Bloc

One of Paraguay's main hidden advantages is its membership in Mercosur (the Southern Common Market). It is a customs union that includes Brazil, Argentina, Uruguay, Paraguay, and Bolivia. Combined GDP: $3.5–5 trillion. 300+ million consumers.

What Mercosur gives you: free movement of goods within the bloc (zero customs duties on most goods). A common external tariff for goods from third countries. An FTA with the EU (signed in 2019, in the process of ratification). FTAs with Israel, Egypt, and some other countries. For an entrepreneur, a company in Paraguay can trade freely with Brazil (the largest economy in South America, 215 million people) and Argentina (50 million).

Paraguay's trade advantages: Ciudad del Este is the second most active trading zone in the world after Hong Kong (the ranking is debatable, but the zone is significant). It is the largest free trade zone in the region, with low prices on electronics, clothing, and household appliances. Trade with Brazil and Argentina. Asunción is an active river port (Río Paraguay → Río de la Plata → the Atlantic).

An agricultural powerhouse: Paraguay is the world's largest exporter of organic stevia and the fourth-largest exporter of soybeans in the world. It is a major exporter of beef, corn, and wheat. Paraguay is made for agribusiness. Land prices are $500–$2,000 per hectare vs. $5,000–$50,000 in Brazil.

Hydroelectric energy: the Itaipú Dam (on the Paraguay-Brazil border) is one of the largest hydroelectric plants in the world. Paraguay uses only 20% of its quota and sells the rest to Brazil. As a result, electricity in Paraguay is the cheapest in the region. Bitcoin mining communities use this. Cheap electricity means a crypto mining opportunity.

CHAPTER 5

Life in Asunción: Reality and Expectations

Asunción is the capital of Paraguay and its largest city (700,000 in the city, 2.5 million in the metro area). It is not Lisbon or Singapore. But it has its own advantages.

Cost of living: one of the lowest in the world for comfortable living. Rent for a 1BR in a good neighborhood (Mburucuyá, Carmelitas): $300–600/month. A 3-bedroom house or villa in Lambaré: $500–900/month. A restaurant lunch: $3–8. A good steakhouse: $15–25. Groceries at the Stock or Superseis supermarkets: prices roughly like in Eastern Europe. Uber: $2–4 for an ordinary ride. A personal car is necessary. Total for one person: $1,000–2,000/month, comfortably.

Safety: Asunción is safer than Buenos Aires or Rio de Janeiro. But it is not Dublin. Recommended: live in guarded neighborhoods, use Uber (not street taxis), and avoid night walks in unfamiliar districts. Safe barrios: Mburucuyá, Carmelitas, Villa Aurelia, and Lambaré (Ycua Satí) are good neighborhoods for expats.

Infrastructure: internet of 100–300 Mbps is available. Claro and Tigo are the main providers. 4G/5G in the city. Electricity is cheap and stable. Water: drinkable from the tap (in good neighborhoods). Medicine: private hospitals such as Hospital Bautista and Centro Médico La Costa are of good quality. Healthcare costs are significantly lower than in the EU/USA. A doctor's consultation: $30–60.

Expat community: smaller than in the UAE, Georgia, or Portugal, but growing. There is no large Russian-speaking community. There is a small Ukrainian one. There is a large German one (historic German colonies). Americans and Brazilians are represented. Facebook groups: “Expats in Paraguay” and “Living in Paraguay.”

The downsides: heat and humidity in summer (December–February): 35–42°C. The Spanish language is a barrier. English is hardly spoken outside the business environment. Guaraní is the second official language (indigenous) and is more common in rural areas. Infrastructure outside Asunción is weak. Politics: historically unstable, although the last few years have brought moderate progress.

The ideal Paraguayan resident: a digital entrepreneur with high income from foreign sources who needs the lowest possible tax burden at minimal residency cost. Someone who values autonomy and does not need EU status. Cryptocurrency or agriculture entrepreneurs. Those looking for the cheapest path to dual citizenship in 3 years.

CHAPTER 6

Paraguay vs. Other Low-Tax Jurisdictions

A final comparison of Paraguay with other popular jurisdictions, to give a full picture of its place in your planning.

Paraguay vs. Georgia: both have a territorial tax. Georgia: 1% for small business, better banking. Paraguay: 0% on foreign income, cheaper living. Georgia: more developed expat infrastructure, easier banking. Paraguay: cheaper residency ($5,000 vs. $35,000 for the Georgia VIS through real estate). Winner: Georgia for digital nomads, Paraguay for maximum optimization plus citizenship.

Paraguay vs. Panama: both have a territorial tax. Panama: more developed, better banking, closer to the USA. Panama is more expensive ($2,500–4,000/month vs. $1,000–2,000 in Asunción). Panama: a more established expat infrastructure. Paraguay: citizenship after 3 years (vs. 5 years in Panama). Paraguay: cheaper residency. Winner: Panama for comfort, Paraguay for maximum savings.

Paraguay vs. the UAE: the UAE has 0% income tax, the best infrastructure, and world-class networking. The UAE is 5–7 times more expensive in cost of living. The UAE has no path to citizenship. Paraguay offers citizenship after 3 years, which is priceless for those who want it. Winner: the UAE for high income ($500K+) and business networking; Paraguay for a modest budget and citizenship.

Paraguay vs. Cyprus: Cyprus is an EU jurisdiction, with an EU passport after 7 years. Cyprus has a 12.5% tax vs. 0% in Paraguay. Cyprus is significantly more expensive ($2,500–3,500/month vs. $1,000–2,000). Paraguay: 3 years to citizenship vs. 7 years in Cyprus. Winner: Cyprus for EU business and EU status; Paraguay for maximum speed to citizenship.

The “Paraguay Flag” strategy: the “Flag Theory” concept means different “flags” in different countries. Paraguay plays the role of the residency flag (legal status, a bank account) and the citizenship flag (a second passport after 3 years). Many entrepreneur nomads use Georgia or the UAE for living and working, Paraguay for residency and a passport, and Estonia for an EU company. This is a multi-layered but legal strategy.

The final recommendation on Paraguay: Paraguay is an excellent choice if you want a second passport as fast and cheaply as possible, have 100% foreign income and want a 0% tax, are ready for a more modest lifestyle than in Dubai or Lisbon, are interested in South American markets (Mercosur), and do not require EU status.

What next

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