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International Tax

Dominican Republic Highlights 2017

Investment basics:

Currency – Dominican Republic Peso (DOP)

Foreign exchange control – The foreign exchange regime is based on the free exchange of national currency against foreign currency.

Accounting principles/financial statements – IFRS. US GAAP and IFRS apply for small and medium-sized entities.

Principal business entities – These are the corporation, limited liability company and branch of a foreign company.

Corporate taxation:

Residence – A company is resident if it is incorporated under the laws of the Dominican Republic or if its place of effective management is in the Dominican Republic.

Basis – The Dominican Republic taxes primarily on a territorial basis. Business income derived from activities performed in, property situated or economically used in, or economic rights used in, the Dominican Republic are taxed, regardless of the domicile or residence of the participants or the contracting location.

Taxable income – Corporate tax is levied on the net aggregate of various sources of business income, including capital gains derived from the transfer of capital assets (generally land and shares). Certain items of investment income derived by resident corporate taxpayers from foreign sources also are subject to Dominican tax, including dividends; interest on loans and bank savings; and income from banking or financial operations, bonds, shares in capital companies, bills of exchange and other movable capital or securities on the capital markets.

Taxation of dividends – Dividends received by a Dominican entity from which tax has been withheld at the time of the distribution are exempt from corporate income tax. No withholding tax applies if such dividends are further distributed by the recipient entity.

Capital gains – Capital gains derived from the sale of assets, immovable property or shares are included in gross income and are subject to the standard corporate income tax rate of 27%. The capital gain is calculated by deducting from the sale price the acquisition cost, adjusted for inflation, and adding the accumulated earnings/losses (other adjustments also may apply, depending on the case).

Losses – Net operating losses may be carried forward for five years, but only up to 20% of the annual total net losses carried forward may be deducted. For the fourth year, the 20% deduction may not exceed an amount equal to 80% of taxable income and, for the fifth year, the 20% deduction may not exceed 70% of taxable income. For newly formed entities, losses from the first year of operations should be fully deducted in the second year. The carryback of losses is not permitted.

Rate – 27%

Surtax – No

Alternative minimum tax – A 1% asset tax, which must be paid in two installments, applies to the value of a corporation's total assets according to the company's financial statements. The asset tax is considered a minimum tax payable when it is higher than the company’s corporate income tax liability. Certain assets are excluded from the taxable base.

Foreign tax credit – Credit is available for taxes paid abroad corresponding to foreign-source income that is taxable in the Dominican Republic, up to the amount of Dominican tax payable on the income.

Participation exemption – No

Holding company regime – A holding company's income tax obligation is limited to the filing of the annual tax return, provided all of its income has been subject to withholding tax by the companies in which it has investments, and dividends distributed by a holding company to its shareholders are not subject to withholding tax.

Incentives – Various tax incentives are available and include regimes (e.g. for free trade zones and tourism) that often provide a 100% exemption from national taxes and contributions.

Withholding tax:

Dividends – The withholding tax on dividends paid to a resident or a nonresident is 10%. As from 5 October 2016, the same withholding tax applies to dividends or benefit remittances by free trade zone entities.

Interest – The withholding tax on interest paid to a resident individual or a nonresident (individual or entity) is 10%. No tax is withheld on interest paid to a resident legal entity.

Royalties – The withholding tax on royalties paid to a nonresident is 27% (i.e. based on the corporate income tax rate).

Technical service fees – Technical service fees paid to a nonresident are subject to a 27% withholding tax (i.e. based on the corporate income tax rate), regardless of where the services are provided.

Branch remittance tax – A permanent establishment of a foreign company must withhold 10% on cash dividends paid to its head office.

Other – A final withholding tax may be levied on other payments (e.g. management fees) made to nonresidents, at a rate of 27%.

Other taxes on corporations:

Capital duty – Capital duty is levied on the formation of a corporation or on a capital increase, at a rate of 1% of the capital amount.

Payroll tax – In addition to the normal income tax withheld from the salary of an employee, the employer must pay a monthly tax equal to 1% of the regular payroll to finance "INFOTEP," a special training fund. The fringe benefits tax is levied at the corporate income tax rate and is payable by the employer on a monthly basis.

Real property tax – No, but see under "Alternative minimum tax."

Social security – Both the employer and the employee must contribute to the social security system. Contributions are calculated on the basis of the employee's earnings, i.e. the basic salary increased by any additional payments in cash or in kind, although certain deductions apply. The upper limits for calculating the contributions are based on multiples of the minimum salary.

Stamp duty – Stamp duty is levied on most written contracts; the registration and renewal of trademarks; documents evidencing loans, debts, shares and guarantees; and all documents prepared or registered by notaries and registrars. The rates vary depending on the taxable event.

Transfer tax – The transfer of real property located in the Dominican Republic is subject to a transfer tax of 3% of the price of the property.

Anti-avoidance rules:

Transfer pricing – Transfer pricing rules are based on the OECD guidelines. The following methodologies are accepted: (1) comparable uncontrolled price; (2) resale price; (3) cost plus; (4) profit split; and (5) transactional net margin. An annual information return must be submitted no later than 60 days after the due date for filing the corporate income tax return. Advance pricing agreements are available for all taxpayers and sectors.

Thin capitalization – Thin capitalization rules limit the deduction of interest. The deductible amount may not be higher than the result from multiplying the total amount of interest accrued in the fiscal period by three times the annual average balance of equity divided by the annual average balance of all of the taxpayer´s interest-bearing debt. After applying the annual permitted interest deduction, any excess interest may be carried forward for deduction in the following three fiscal years (subject to the same limitation). Interest paid to resident individuals and entities is not subject to the interest deduction limitation.

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – There are four available tax year ends: 31 March, 30 June, 30 September and 31 December (most common).

Consolidated returns – Consolidated returns are not permitted; each company must file its own return.

Filing requirements – All entities operating in the Dominican Republic must file a tax return within 120 days after the end of the fiscal year. A request for an extension to file may be made to the tax authorities (at least 15 days before the due date).

Penalties – Penalties may be imposed for late filing, failure to file and tax avoidance or evasion. Surcharges are 10% for the first month or fraction thereof and 4% thereafter. Interest of 1.10% applies for each month or fraction thereof.

Rulings – A taxpayer may request a ruling from the tax authorities on the tax treatment of specific transactions. Rulings are binding on the tax administration with respect to the taxpayer that filed the request.

Personal taxation:

Basis – The Dominican Republic primarily operates a territorial system of taxation, although resident individuals are subject to tax on certain foreign investment income. Nonresident individuals are taxed only on Dominican-source income.

Residence – An individual is considered resident if he/she is in the country for at least 182 days in a fiscal year, whether or not continuous. Foreign individuals who become resident are subject to tax on their foreign-source income from the third taxable year or period in which they become resident. For tax purposes, partnerships are treated as separate taxable persons from their members.

Filing status – Each individual is required to file a return; joint filing is not permitted.

Taxable income – The Dominican Republic applies a broad concept of income, which includes all income constituting earnings or profits resulting from goods or activities, all benefits and earnings accrued or collected and capital gains, whatever their nature, origin or description. For resident taxpayers, business income includes foreign-source investment income.

Capital gains – Capital gains derived from the disposal of capital assets located in the Dominican Republic, whether the sale is of an occasional nature or otherwise, are subject to a 27% tax. Gains must be reported in the personal tax return for the same period in which the disposal took place.

Deductions and allowances – Resident individuals who carry out activities other than employment activities may deduct all expenses necessarily incurred to obtain, maintain and preserve the taxable income or its source. Subject to documentation requirements, an individual may deduct up to 10% of his/her net taxable income for educational expenses incurred for his/her benefit or for that of self-employed direct dependents.

Rates – Progressive rates ranging from 15% to 25% apply, depending on the amount of net taxable income. The amounts are adjusted annually for inflation.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on most written contracts; the registration and renewal of trademarks; documents evidencing loans, debts, shares and guarantees; and all documents prepared or registered by notaries and registrars. The rates vary depending on the taxable event (e.g. 2% for mortgage registration).

Capital acquisitions tax – No

Real property tax – Real estate tax is levied on real property valued at more than DOP 6.8 million, with a 1% rate applied on the excess of that amount. The amount is adjusted annually for inflation.

Inheritance/estate tax – Inheritance and gift tax is levied on personal and real property that forms part of the gross estate of a deceased person, a gift of property located in the Dominican Republic and foreign-situs personal property of a deceased person who had Dominican nationality or whose last domicile was in the country. The rate is 3% of the amount of the inherited estate or 25% of the amount of the gift.

Net wealth/net worth tax – A net worth tax is levied in the form of a minimum tax for individuals that carry on a trade or business in the Dominican Republic. The tax is 1% on the average total net worth of the taxpayer, including the net value of real property.

Social security – Dominicans and foreigners residing in the Dominican Republic must contribute to the social security system. Contributions are calculated on the basis of each employee's earnings, i.e. the basic salary, increased by any additional payments in cash or in kind, although certain deductions apply. The upper limits for calculating the contributions are based on multiples of the minimum salary.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – The tax return must be filed by 31 March of the year following the taxable year. Taxpayers whose only source of income is employment income are not required to file a return, since the withholding by the employer operates as the final tax payment.

Penalties – Penalties and interest apply for late filing or failure to file. Surcharges are 10% for the first month or fraction thereof and 4% thereafter. Interest of 1.10% applies for each month or fraction thereof.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and services within the Dominican Republic, and on the import of goods.

Rates – The standard VAT rate is 18%. A reduced rate of 16% applies to certain goods.

Registration – VAT registration is included in the general registration as a taxpayer.

Filing and payment – Filing is required on a monthly basis by the 20th day of the month.

Source of tax law: Dominican Constitution, Tax Code of the Dominican Republic, Law 11-92, presidential decrees on certain tax matters, resolutions issued by competent authorities and other special laws that establish the tax treatment and/or incentives or exemptions for certain activitie

Tax treaties: The Dominican Republic has two tax treaties: one with Canada and another with Spain.

Tax authorities: Dirección General de Impuestos Internos (DGII) and Dirección General de Aduanas (DGA)

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