International Tax
Dominican Republic Highlights 2020

Updated January 2020

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 applies. 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:

Rates	
Corporate income tax rate	27% (in general)
Branch tax rate	27% (in general); 10% withholding tax applies on benefit remittances to head office
Capital gains tax rate	27% (in general)

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 country is taxed, regardless of the domicile or residence of the participants or the contracting location. Branches are taxed in the same way as subsidiaries.

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.

Rate – The standard corporate income tax rate is 27%.

Surtax – There is no surtax.

Alternative minimum tax – A 1% asset tax applies to the value of a corporation's total assets according to the company's financial statements. The asset tax, which is paid in two installments, 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.

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 the acquisition cost (adjusted for inflation) from the sales price 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 may be fully deducted in the second year. The carryback of losses is not permitted.

Foreign tax relief – 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 – There is no participation exemption.

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. 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., free trade zones and tourism) that often provide a 100% exemption from national taxes and contributions.

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 and payment – 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 authorities with respect to the taxpayer that filed the request.

Individual taxation:

Rates

Individual income tax rate	Taxable income (DOP)	Rate
	Up to 416,220	0%
	Over 416,220 and up to 624,329	15% of the amount exceeding DOP 416,220
	Over 624,329 and up to 867,123	20% of the amount exceeding DOP 624,329
	Over 867,123	25%
Capital gains tax rate		25%

Residence – Individuals are considered resident if they are 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.

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.

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.

Rates – Progressive rates ranging from 15% to 25% apply, depending on the amount of net taxable income. The amounts are adjusted annually for inflation. For 2020, the 25% rate applies to income over DOP 867,123 (around USD 16,360).

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 25% 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, individuals may deduct up to 10% of their net taxable income for educational expenses incurred for their benefit or for that of self-employed direct dependents.

Foreign tax relief – 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.

Compliance for individuals:

Tax year – The tax year is the calendar year.

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

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.

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

Withholding tax:

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	10%	10%	10%	10%
Interest	0%	10%	10%	10%
Royalties	0%	10%	27%	27%
Fees for technical services	0%	10%	27%	27%

Dividends – The withholding tax on dividends paid to a resident or a nonresident is 10%. 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% (based on the corporate income tax rate). No tax is withheld on royalties paid to a resident legal entity, and royalties paid to a resident individual are subject to a 10% withholding tax.

Fees for technical services – Fees for technical services (and services in general) paid to a nonresident are subject to a 27% withholding tax (based on the corporate income tax rate), regardless of where the services are provided. No tax is withheld on fees for technical services paid to a resident legal entity, and fees paid to a resident individual are subject to a 10% withholding tax.

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

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

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.

Interest deduction limitations – 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, 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 – There are no CFC rules.

Hybrids – There are no hybrid mismatch rules.

Economic substance requirements – There are no economic substance requirements in place.

Disclosure requirements – There are no disclosure requirements.

Exit tax – There are no exit taxes.

General anti-avoidance rule – There is no general anti-avoidance rule in place.

Value added tax:

Rates	
Standard rate	18%
Reduced rate	16%

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 of mass consumption.

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

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

Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply to both companies and individuals and are imposed at the territorial level.

Social security contributions – Both the employer and the employee (including Dominicans and foreigners residing in the Dominican Republic) must contribute to the social security system. Contributions are calculated based on the employee's earnings, i.e., the basic salary increased by 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.

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.

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.

Real property tax – There is no real property tax for companies, but see under "Alternative minimum tax."

For individuals, 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.

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.

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.

Net wealth/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.

Inheritance/estate tax – For individuals, 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.

Tax treaties: The Dominican Republic has two tax treaties (Canada and Spain).

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

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