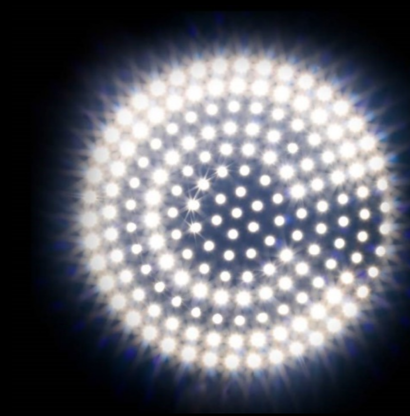
International Tax
Ecuador Highlights 2017



Investment basics:

Currency – US Dollar (USD)

Foreign exchange control – No

Accounting principles/financial statements – Companies must follow International Financial Reporting Standards. Financial statements must be submitted annually.

Principal business entities – These are the corporation (SA), limited liability company (*Cía. Ltda.*) and branch of a foreign company.

Corporate taxation

Residence – A company is resident in Ecuador if it is incorporated there.

Basis – Resident entities are taxed on worldwide income. Nonresidents are subject to tax only on Ecuador-source income.

Taxable income – Taxable income comprises gross income derived from business activities. Expenses incurred for obtaining taxable income may be deducted provided they are supported by documentation.

Foreign income taxed in another jurisdiction is not taxed in Ecuador (unless the income is derived from a tax haven or low-tax jurisdiction).

Taxation of dividends – Dividends received by a resident or nonresident corporation from another resident corporation out of profits that have been subject to corporate income tax are exempt provided the recipient is not resident in a tax haven or low-tax jurisdiction. Dividends paid to a recipient in a tax haven or low-tax jurisdiction are subject to withholding at source.

Capital gains – Capital gains are treated as ordinary income and taxed at the normal corporate rate.

Losses – Losses may be carried forward for five years, but may be offset only against 25% of the profits earned in each tax year. The carryback of losses is not permitted.

Rate – The standard rate is 22%, increasing to 25% on taxable income corresponding to the shareholding of partners or shareholders resident in tax havens or low-tax jurisdictions.

If the shareholding exceeds 50%, the applicable rate for the entire entity is 25%, with a reduced rate of 12% or 15% when corporate profits are reinvested for the purchase of machinery or equipment and/or the acquisition of new technology.

Companies engaged in the exploration or exploitation of hydrocarbon also are subject to the standard corporate tax rate.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – see under "Taxation of dividends."

Holding company regime – No

Incentives – New investments are entitled to a five-year corporate income tax exemption (as well as an exemption from the payment of advance tax) subject to compliance with requirements relating to the sector in which the investment is undertaken and provided the investment is not undertaken in the cantons of Quito and Guayaquil.

New investments in 10 "basic industries" are tax-exempt for 10 years.

Enterprises set up in special development zones are granted a further 5% reduction in the corporate income tax rate.

Entities set up to develop projects under public-private partnerships are entitled to a 10-year income tax exemption as from the first year in which operating income is generated. Dividends or earnings generated by such entities also are exempt from income tax. An exemption from the special tax on remittances abroad is available provided certain requirements are met (see below under "Withholding tax," "Other").

Withholding tax:

Dividends – Dividends paid to a nonresident generally are not subject to withholding tax, but dividends paid to a recipient in a tax haven or low-tax jurisdiction are subject to a 10% withholding tax. Dividends paid to an individual in Ecuador form part of the individual's taxable income and are subject to progressive tax rates ranging from 5% to 35%.

Interest – Interest paid on a loan obtained from a nonresident financial institution (banks) is not subject to withholding tax, unless the interest rate exceeds the rate set by the central bank. Any excess interest is subject to a 22% withholding tax, unless the rate is reduced under a tax treaty. The rate increases to 25% where interest is paid to a recipient in a tax haven or low-tax jurisdiction.

Royalties – Royalties paid to a nonresident are subject to a 22% withholding tax, unless the rate is reduced under a tax treaty. The rate increases to 25% where royalties are paid to a recipient in a tax haven or low-tax jurisdiction.

Technical service fees – Technical service fees paid to a nonresident are subject to a 22% withholding tax, unless the rate is reduced under a tax treaty. The rate increases to 25% where fees are paid to a recipient in a tax haven or low-tax jurisdiction.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – The employer is required to pay 0.5% of payroll to a national training fund and 0.5% to an education credit program.

Real property tax – Urban property tax is levied annually by the municipalities on the owner of property at progressive rates ranging from 0.025% to 1%.

Social security – The employer pays social security tax at a rate of 11.15% on the total salary of the employee.

Stamp duty – No

Transfer tax – Transfer tax is levied by the municipal governments on the transfer of immovable property, the creation of trusts and certain gifts.

Other – Credit transactions are subject to a 1% tax, calculated on the loan principal. The tax is withheld by the financial institution.

All remittances abroad are subject to a 5% special tax (ISD), charged by the bank transferring the funds and which is then declared to the tax authorities. The tax is deductible for the company transferring the money abroad. Payments made from overseas, whether for goods or services, also are subject to the ISD.

Tax paid on the import of raw materials, capital assets and supplies for production may be used as a tax credit to offset income tax payments in the current financial year, provided certain requirements are met.

A 70% extraordinary receipts tax is levied on companies that have concluded contracts with the Ecuadorian state for the exploration and exploitation of natural resources.

Anti-avoidance rules:

Transfer pricing – The transfer pricing regime is based on the OECD guidelines. Transactions between related parties must be carried out on arm's length terms. Documentation rules apply. Taxpayers are required to file a schedule of transactions with related parties where the amount of the transaction exceeds USD 3 million in the fiscal year. If related party transactions exceed USD 15 million in a fiscal year, the taxpayer must file a transfer pricing report.

Thin capitalization – Interest payments on foreign loans granted by a related party are deductible only if the foreign debt does not exceed 300% of the entity's paid-in capital.

Controlled foreign companies – No

Disclosure requirements – No

Other – Ecuador has a general anti-avoidance rule.

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – Companies are required to make two advance payments of corporate income tax (July and September). The amount is calculated using a defined formula and is based on specified factors. The final return must be submitted between 1 February and 10-28 April of the year following the tax year.

Penalties – Interest and penalties apply for late filing, failure to file or filing an incorrect return.

Rulings – The tax authorities can respond to a taxpayer's questions, but the response is binding only on the taxpayer.

Personal taxation:

Basis – Resident individuals are taxed on their worldwide income; nonresidents are taxed only on Ecuador-source income.

Residence – An individual is deemed to be resident if he/she is in Ecuador for more than six months in a year, if his/her principal activities or economic interest are in Ecuador or if the individual's close relatives are in Ecuador. A change in tax residence will not become effective for five years if the individual moves from Ecuador to a tax haven or low-tax jurisdiction unless the individual can demonstrate that he/she was physically present in the new jurisdiction for at least 183 days during the tax year.

Filing status – Married couples or common law spouses living in a common law union must file a combined return if their joint assets exceed 40 times the basic income tax-free allowance. However, if either of the spouses/partners holds assets outside of the conjugal community, returns must be filed separately and include the individual assets and liabilities, as well as the assets and liabilities that form part of the conjugal community or common law union.

Taxable income – Taxable income includes income from employment, income from a profession or business, capital gains and investment income, such as dividends.

Foreign income that has been subject to tax in another jurisdiction is not taxed in Ecuador. For resident individuals, dividends (see under "Withholding," above) are deemed to form part of worldwide income (the income tax paid by the distributing company may be credited against the individual's income tax liability).

Capital gains – Capital gains are treated as ordinary income and taxed at the normal rate.

Deductions and allowances – Deductions are permitted up to a maximum amount of USD 14,521 for personal expenses (housing, education, food, health, clothing, etc.) and social security paid by the individual.

Rates – Rates are progressive from 0% to 35%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Urban property tax is levied annually by municipalities on the owner of property at progressive rates ranging from 0.025% to 1%.

Inheritance/estate tax – Inheritance tax is levied at progressive rates up to 35% on donations, inheritances and legacies. A tax-free allowance of USD 71,220 is granted.

Net wealth/net worth tax – No

Social security – Resident employees are required to make monthly social security contributions in an amount equal to 9.45% of the monthly salary.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Tax returns must be filed between 1 February and 10-28 March of the year following the tax year.

Individuals whose sole source of income is derived from employment are not required to file a return. Self-employed individuals are subject to the same rules as companies.

Penalties – Interest and penalties apply for late filing, failure to file or filing an incorrect return.

Other – Individuals whose total assets exceed 20 times the basic income tax-free allowance must file information on their net worth in May of each year, stating the beginning balances at 1 January of the relevant year.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and the provision of services and services received from overseas.

Rates – The VAT rate is 14%, reducing to 12% on 1 June 2017. Certain transactions are exempt or zero rated.

Registration – No

Filing and payment – VAT returns must be filed on a monthly basis.

Source of tax law: Tax Code, Production Code, Regulation, Resolutions.

Tax treaties: Ecuador has 19 tax treaties.

Tax authorities: Internal Revenue Service

Contact:

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