



TAXES IN AMERICA

2024

6th EDITION

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Ecuador



Capital city:
Quito



Area:
283,560 km²



Population:
18,824,414



Language:
Spanish



Political system:
Presidential
republic



GDP/capita
2023:
USD 11,845



Currency:
US Dollar (USD)



ISO Code:
ECU



Telephone code:
+593



National day:
10 August

1. Types of taxpayers

Natural persons who are all national and foreign individuals carrying out economic activities in our country. Legal persons that are the companies; this group includes all public-sector institutions, legal entities under the control of the Superintendencies of Corporations and Banks, non-profit organizations, and de facto corporations, among the most important.

In Ecuador, both individuals and corporations, organizations or institutions are taxpayers. The level of income obtained each year by each taxpayer indicates whether or not they should keep accounts.

1.1 Registration in the single register of taxpayers

All natural persons and corporations, both national and foreign, initiating or carrying out economic activities in the country on a permanent or occasional basis are obligated to register in the Unique Taxpayer Registry (UTR).

It is the number that identifies each taxpayer performing an economic activity. It is the proof of registration, it shows your personal or company data and your economic activity, as well as your UTR number.

Opening of a company in Ecuador

The Companies Law recognises six types of companies: companies in collective name, limited and divided by shares, limited liability companies, joint stock companies, mixed economy companies and simplified joint stock companies. It is also possible for a foreign company to establish itself in Ecuador.

For corporations or limited companies to be formed in Ecuador, it is necessary to take into consideration the following:

- It is necessary to have at least two or more shareholders for each case;
- If the shareholders or partners of the company to be created in Ecuador are foreign companies, their legal existence must be demonstrated abroad, through the document issued by the competent authority;
- Foreign companies may be members of a limited liability company if their

capital is represented only by participations, shares, or normative social parts, that is to say, issued or issued in favour or in the name of their partners, shareholders or members, and in no way in bearer form.

- Foreign companies participating in the incorporation of a public limited company or limited liability company whose list of partners or shareholders includes another legal person of any kind must also provide the list of its members and so on until the corresponding natural person is determined or identified.
- The law requires that the capital of the company be paid to a bank, while the process of formation of the company lasts. The minimum capital is USD 800 for an anonymous company and USD 400 for a limited company;
- Except for certain specific activities that require prior authorization, such as transportation, outsourcing services (security, food, cleaning), banking activity, the purpose of a local company may contemplate any activity that is not illegal, in this case of these activities the initial capital is USD 10,000;
- The Simplified Joint Stock Company SAS is a company whose shareholders are liable up to the amount of their respective capital contributions to the entity only. Shareholders may choose to waive this limitation in order to insure with their own assets any operation of this type of entity.
- It is important to mention that the SAS in Ecuador cannot be listed on the stock exchange. The SAS is constituted by means of a private document that will be registered in a new Companies Registry by the Superintendence of Companies. In addition, SAS do not have a minimum capital requirement.
- This type of legal entity in Ecuador cannot carry out activities or its line of business cannot be related to the financial, stock exchange, insurance or other systems that have special treatment under Ecuadorian law.

Any company operating in Ecuador is subject to external audit as long as it exceeds USD 5,000,000 in assets in its financial statements.

Except for branches or foreign companies organized as legal entities that have been established in Ecuador and the associations that these form with each other or with national companies in which case the base is USD 100,000 in assets.

Branch of a foreign company

A foreign company can open a branch in Ecuador, provided that its bylaws provide for the possibility of conducting business outside the country of origin.

In order to open a branch in Ecuador it is necessary to prove that it exists in the country of origin and that activities are to be carried out in Ecuador. Therefore, it will be necessary to show:

- Authentic copies of the corporate bylaws of the company, duly legalized and apostilled (endorsed);
- Authentic copies of the decision of the competent body to open a branch, duly legalized and apostilled;
- Appoint a proxy to represent the branch, with extensive powers;
- Allocate a capital for the branch of at least USD 2,000.

2. Companies

2.1 Home

A company has a fiscal residence in Ecuador when it has been incorporated or created in Ecuadorian territory.

The concepts of domicile and residence of the taxpayer will be understood without distinction as fiscal residence.

Tax Residence of Natural Persons

Natural persons shall be considered tax residents of Ecuador, with reference to a fiscal year, if they are in any of the following conditions:

- a. When their stay in the country, including sporadic absences, is 183 calendar days or more, consecutive or not, in the same fiscal period.
- b. When his stay in the country, including sporadic absences, is 183 calendar days or more, consecutive or not, in a period of twelve months within two tax periods, unless he proves his tax residence for the corresponding period in another country or jurisdiction. In case he proves his tax residence in a tax haven or lower tax jurisdiction, he must prove that he has stayed in that country or jurisdiction for at least 183 calendar days, whether consecutive or not, in the relevant tax period. In the event that a tax resident in Ecuador subsequently proves his tax residence in a tax haven or jurisdiction of lower taxation, he shall maintain the status of tax resident in Ecuador until the four tax periods following the date on which he ceased to meet the conditions for being a resident mentioned in the previous paragraphs, unless he proves that he has remained in that country or jurisdiction for at least 183 calendar days, consecutive or not, in the same tax period;
- c. The principal nucleus of its activities or economic interests is located in Ecuador, directly or indirectly.

In order for a natural person to be considered a non-resident of Ecuador, he/she must prove that the main core of his/her activities or economic interests are located in the other jurisdiction in which he/she establishes his/her residence; otherwise, his/her fiscal residence in Ecuador shall be presumed.

The individual resident in another jurisdiction may credit as a tax credit the tax already paid in his country of residence.

2.2 Calculation of the Tax on Profits

To settle the Income Tax in the case of companies, the following rates will be applied to the tax base:

The taxable income obtained by companies incorporated in Ecuador, as well as by branches of foreign companies residing in the country and permanent establishments of foreign companies not based in the country, will apply a of 25% rate on their tax base.

Tax rate will be that corresponding to companies plus 3% when:

- The company has shareholders, partners, participants, constituents, beneficiaries or similar, on whose corporate composition said company has breached its duty to report in accordance with the provisions of this Law; or,
- Within the chain of ownership of the respective rights representing capital, there is a resident, established or protected holder in a tax haven, jurisdiction of lower tax or preferential tax regime and the beneficial owner is a tax resident of Ecuador.

The addition of 3% will apply to the entire taxable base of the company, when the percentage of participation of shareholders, partners, participants, constituents, beneficiaries or similar, for whom any of the causes referred to in the Article 37 of the LRTI is equal to or greater than 50% of the share capital or of the one that corresponds to the nature of the company. When the aforementioned participation is less than 50%, the rate corresponding to companies plus 3% will be applied to the proportion of the tax base corresponding to said participation, as stated in the regulations.

2.3 Reduction of the tariff in specific cases

In November 2021 the Organic Law for Economic Development and Fiscal Sustainability was issued following the Covid-19 pandemic, where it establishes:

a) The reduction of 3% on income tax

For companies that are constituted from the entry into force of this law, new companies that are constituted by existing companies, as well as new investments of existing companies, will enjoy a reduction of 3 percentage points on the income tax rate applicable for up to 15 years, provided that the following conditions and requirements are met:

- The reduction shall apply solely and exclusively to the income subject to income tax derived from the activities attributable to the new investment.
- Existing companies shall maintain a cost centre to differentiate the income attributable solely to the new investment, where applicable.
- A change of ownership of productive assets between related parties that are already in operation does not constitute a new investment. Investment other than that accompanying the acquisition of productive assets already in operation or operation shall also be recognised as new investment.
- The term of the reduction shall be counted from the first tax year in which profits attributable to the new investment are generated.

For the application of the reduction of three percentage points (3%) of income tax for the development of new investments, the general corporate income tax rate applicable to the fiscal year in which the benefit is to be used shall be used.

In the event that existing companies avail themselves of this reduction and it is not possible for them to maintain a cost centre, due to the nature of the investment, they must apply the following procedure:

1. Calculate the percentage attributable to the new investment:

$$\% \text{ attributable to new investment} = \frac{\text{New investment}}{\text{Total non-current assets}} \times 100$$

Where:

New investment: corresponds to the investment effectively executed and ready for operation. Accumulated depreciation and revaluation and/or restatement effects are not included.

Total non-current assets: corresponds to the total value of non-current assets recorded in accordance with the applicable accounting technique, at the close of the reported financial year. This value includes the new investment reported in the numerator.

2. Calculate the amount of taxable income attributable to the new investment (BI new investment):

BI new investment = BI new investment X attributable new investment

Where:

Taxable base: corresponds to the total taxable income tax base, in accordance with the definition and rules provided for in the Law and these Regulations.

3. Determine the income tax attributable to the new investment (IR new investment):

IR new investment = BI new investment x reduced IR rate

Where:

Reduced IR rate: corresponds to the general corporate income tax rate minus the reduction provided for in the Internal Tax Regime Law.

When the income tax rate applicable to the taxpayer is higher than the general corporate income tax rate, in accordance with the provisions of the Law and its Regulations, the taxpayer must apply said rate minus the discount in the calculation of the income tax attributable to the new investment, in the same proportion that would correspond to applying said rate to the non-attributable taxable base.

4. Determine the income tax not attributable to the new investment:

BI non-attributable = Tax base — BI new investment

IR non- attributable = BI non-attributable X IR rate

Where:

IR rate: corresponds to the income tax rate to be applied by the taxpayer, in accordance with the Internal Tax Regime Law.

5. Determine the total income tax:

Total IR = IR new investment + IR not attributable.

In no case may the effective total income tax rate be lower than the "reduced IR rate". The effective rate shall be understood as the result of dividing the "Total IR" by the "Taxable Base".

For existing companies applying the previous procedure, and provided that it is not possible to distinguish from when income attributable to the new investment is generated, the term of the reduction will be counted from the first tax year in which the investment is made.

Taxpayers shall maintain sufficient supporting documentation to certify that, in no case, has the reduction accumulated during the period of the investment exceeded the amount of the investment or the 15-year period, whichever comes first.

a) Reduction of 5%

For companies that are incorporated as of the effective date of this law, new companies that are incorporated by existing companies, as well as new investments by existing companies, shall enjoy a reduction of 5% on the income tax rate, provided that the following conditions and requirements are met:

- The companies must sign an Investment Contract, under the terms of the Organic Code of Production, Commerce and Investments (COPCI).
- The reduction will apply solely and exclusively to the income subject to income tax derived from the activities attributable to the new investment.
- Existing companies shall maintain a cost centre to differentiate the income attributable solely to the new investment, where applicable.
- The change of ownership of productive assets that are already in operation does not imply new investment. Investment other than that which accompanies the acquisition of productive assets already in operation or operation shall be recognised as new investment.
- The reduction period shall be counted from the first tax year in which profits attributable to the new investment are generated.

For the application of the special reduction of up to 5% of the Income Tax for the subscription of Investment Contracts, the general corporate income tax rate applicable to the fiscal year in which the benefit is to be used shall be used.

When the income tax rate applicable to the taxpayer is higher than the general corporate income tax rate, in accordance with the provisions of the Law and its Regulations, the special reduction shall be applied to that rate.

The investment contract shall determine the percentage points of reduction to which the taxpayer shall be entitled, in addition to determining whether or not it is impossible to maintain a cost centre, in accordance with the justification presented by the applicant, accompanied by the supporting documentation deemed necessary. If it is determined that it is impossible to maintain a cost centre, the taxpayer may apply the reduced income tax rate on the entire taxable base.

The reduction of all tax benefits accrued during the period of the investment shall in no case exceed the amount of the investment or the term of the benefit stipulated in the investment contract and/or its addendum, whichever comes first. Likewise, the reduction foreseen shall be stated in the favourable opinion of the public finance governing body that must be issued for this purpose prior to the signing of the investment contract.

2.4 Advance of Income Tax

In December 2019 (Organic Law of Tax Simplification and Progressivity), new regulations were issued where the Advance of the mandatory Income Tax that had been applied for several years was eliminated.

As of this reform, the payment of the tax may be voluntarily anticipated, and will be equivalent to 50% of the income tax caused from the previous fiscal year, less the withholdings at source made in said fiscal year.

The anticipated value will constitute a tax credit for the payment of income tax.

The conditions and requirements for the payment of the voluntary advance will be established in the regulations.

Taxpayers may voluntarily anticipate the payment of Income Tax and it will be equivalent to 50% of the income tax incurred in the previous fiscal year, less withholdings at source made in said fiscal year. The anticipated value will constitute a tax credit for the payment of income tax.

Exempt foreign source income

Provided that it has been subject to taxation and that it does not come from a country classified by the Tax Authority as a tax haven, foreign source income is exempt. For this purpose, the list of tax havens issued by the Tax Authority must be considered.

3. Single and temporary contribution

- **On corporate income for the years 2022, 2023**

With the coming into force of the Organic Law for Economic Development and Fiscal Sustainability after the Covid-19 pandemic (November 2021), the following amounts are established as Temporary Contribution:

Natural persons who on 1 January 2021 have individual assets equal to or greater than USD 1.000.000 or in conjugal partnership equal to or greater than USD 2.000.000, will pay a contribution on their assets in fiscal years 2022 in accordance with the following table:

From (USD)	to (USD)	Basic fraction	Tax on the excess fraction (%)
0	999.999,99	0	0
1.000.000,00	1.199.999,99	0	1
1.200.000,00	From now on	2.000	1,5

Companies carrying out economic activities shall pay a temporary contribution on their net worth for the tax years 2022 and 2023, provided that the company has a net worth equal to or greater than USD 5,000,000 as of 31 December 2020. The payment of the temporary contribution on the net worth of the companies shall be made in accordance with the following table:

From (USD)	to (USD)	Wealth Tariff
0	4.999.999,99	0,0%
5.000.000,00	From now on	0,8%

Equity consists of assets minus liabilities owned directly or indirectly by the taxpayer.

See also Section Reforms year 2021 below.

4. Tax on foreign exchange outflows

All foreign exchange outgoing abroad must pay a tax of 5%. The taxable base of the Tax on the Exit of Foreign Currency (ISD) is the amount of the transfer of foreign currency, accreditation, deposit, cheque, transfer, draft and in general of any other mechanism for the extinction of obligations when these operations are carried out abroad and its rate is 5%.

Executive Decree No. 298 of 22 December 2021, issued by the President of the

Republic, provides for the progressive reduction of the tax on foreign exchange outflows - ISD from 2022 onwards by 0.25% in each quarter of the year. Thus, in the last quarter of the year 2022 the ISD rate reached 4%.

On January 10, 2023 the President of the Republic of Ecuador issued a new Executive Decree No. 643 by which he will again progressively reduce the rate of the Foreign Exchange Outflow Tax for the year 2023 according to the following table:

- As of 01 February 2023, reduce the rate by 0.25% i.e. 3.75%.
- As from 01 July 2023, the tariff shall be reduced by 0.25%, i.e. 3.50%.
- As of 31 December 2023, the rate shall be reduced by .50%.

In other words, the Foreign Exchange Outflow Tax (ISD) will be 2% as of 2024.

Exemptions from the Exit Tax

Payments made abroad for the amortisation of capital and interest generated on credits granted by international financial institutions or specialised non-financial entities qualified by the corresponding control entities in Ecuador, that grant financing with a term of 180 calendar days or more, via credit, deposit, purchase and sale of portfolio, purchase and sale of securities in the stock market, that are destined to the financing of housing, microcredit, investment in rights representing capital, or productive investments made in Ecuador, are exempt from this exemption investments made in Ecuador. In these cases, the interest rate of such operations must be lower than the reference rate defined by Resolution of the Monetary and Financial Policy and Regulation Board.

Financing operations granted, directly or indirectly, by related parties by management, administration, control or capital and which in turn are residents or established in tax havens or lower tax jurisdictions, will not be able to access this benefit, except when the borrower is a financial institution.

This exemption is applicable regardless of the date of granting of the external financing operation, provided that at the time of payment, compliance with the conditions provided in the Law, in this Regulation and other applicable provisions is verified.

For this exemption to be applicable, the taxpayer who received external financing must reliably support the full income of the resources to the country through the national financial system, except when said resources have financed foreign trade operations of goods or services between non-parties. related by direction, administration, control or capital.

For the purposes of this exemption, external financing must be used for productive activities, understood as those directly related to the generation of taxed income.

Also exempt are payments made abroad for financial returns, capital gains and capital of those investments coming from abroad, entered into the Ecuadorian stock market. From abroad, entered into the Ecuadorian stock market are also exempt. These investments may be made in variable income securities or in

fixed income securities. This exemption does not apply when the payment is made between related parties.

Payments made abroad, for the concept of dividends distributed by national or foreign companies domiciled in Ecuador, after payment of Income Tax (IR), in favor of other foreign companies or non-resident individuals in Ecuador will be exempt, as long as, the company or the natural person - as appropriate - is not domiciled in tax havens or lower tax jurisdictions.

New exemptions to the Tax on the Exit of Foreign Currency ISD

Payments made abroad for the import of capital goods and raw materials by companies that enter into investment contracts, as of the entry into force of the Organic Law for Economic Development and Fiscal Sustainability after the Covid-19 pandemic (November 2021), up to the amounts and terms established in such investment contracts and/or addenda, provided that such acquisitions are necessary for the development of the project. In order to access this exoneration, it will be necessary to have the opinion of the governing body of public finances prior to the conclusion of the investment contract or its addendum.

For the application of the ISD exoneration in imports of capital goods and raw materials by the subscription of an investment contract, the governing entity in matters of investment shall establish in the investment contract the maximum amount of exoneration, considering as a limit the amount of investment established in the contract, taking into consideration the customs import value and the potential ISD to be exonerated.

The investment contract shall include an annex with details of the relevant subheadings. The capital goods and raw materials on which the incentives are to be applied shall be classified as such within the Classification of Foreign Trade according to their use or economic destination (CUODE).

In the event that there are goods that are necessary for the execution of the project, the governing entity of the area in which the investment is being executed will be responsible and will have to pronounce and determine whether such goods should indeed be considered exceptionally as raw materials or capital goods for the investment project.

This incentive does not prevent the importer from complying with all prior authorisations, licences, requirements or quotas related to the import process, as appropriate for each product.

Likewise, payments made abroad for the sale of rights representing capital or any other asset acquired by companies or persons not resident in Ecuador.

The transfer or transfer of foreign currency abroad is exempt when it is carried out by entities of Auxiliary Services of the Financial System qualified and incorporated in Ecuador, and corresponds in a justified manner, to the payment and/or refund of values collected as part of the provision of services of electronic means of payment, provided that the income that the entity receives for the provision of such services is declared and taxed in Ecuador.

5. Tax reforms

Exempt foreign source income

Provided that it has been subject to taxation and that it does not come from a country qualified by the Tax Authority as a tax haven, the foreign source income is exempt. For this purpose, the list of tax havens issued by the Tax Authority must be considered.

Payments abroad

Article 48 of the Internal Tax Regime Law requires withholding 25% income tax when paying fees for services or payments for taxable income to a company resident in another country. However, there is the alternative of applying the agreements to avoid double taxation that Ecuador has with other countries. Important benefits are obtained.

In most cases, payments abroad are deductible as long as a 25% withholding has been made on the amount of the payment.

Provided that it has been subject to taxation and that it does not come from a country qualified by the Tax Authority as a tax haven, the foreign source income is exempt. For this purpose, the list of tax havens issued by the Tax Authority must be considered.

Tax reforms year 2020

During 2020, tax and corporate reforms were issued aimed at foreign and domestic investment, these reforms were carried out through laws, regulations and resolutions. Among the main ones we have:

- Regulation for the application of the Organic Law of Tax Simplification and Progressivity (Issued in August 2020): The reforms by this law with the following:
 - Changes in the withholding agent regime;

- The formula for calculating and withholding Income Tax in the distribution of dividends is simplified;
 - Creation of the Single Agricultural Income Tax;
 - Automatic refund of Value Added Tax (VAT);
 - Income Tax Exemption on Dividends;
 - Income from projects financed with non-reimbursable credits;
 - Exemption in development of new and productive investments in basic industries,
 - Change Provisions for deductible employer eviction and retirement;
 - Incentives and benefits for art, culture, sports and educational sciences;
 - Incentives and benefits for investment, production and employment;
 - Promotion, advertising and sponsorship;
 - Deductible donations;
 - Provisions to meet eviction payments and retirement pensions;
 - Deferred taxes for leases;
 - Interests with operations with related parties;
 - Credit insurance contracted for export;
 - Calculation and voluntary payment of the income tax advance;
 - Withholdings for dividends;
 - Withholdings for anticipated dividends;
 - Taxes paid abroad;
 - Reforms regarding the single income tax for activities in the banana sector;
 - Reforms regarding the Value Added Tax: Import of digital services;
 - Control mechanisms for the identification, marking, authentication, racking and fiscal traceability of goods;
 - Reforms regarding the tax on foreign exchange;
- Qualification of Withholding Agents and Special Taxpayers: Withholding agents and special taxpayers will be qualified as such by the Internal Revenue Service with the issuance of the respective cadastres.

In accordance with Resolution No. NAC-DGERCGC20-00000057, the Internal Revenue Service published on its institutional web portal (www.sri.gob.ec) the registries of withholding agents and special taxpayers, designated as such, the same that will be updated periodically in accordance with the designations or exclusions made by the Tax Administration.

Who must make withholdings of Income Tax and Value Added Tax:

- Those who have been qualified as special taxpayers by the SRI, in all their acquisitions.
- Those who have been designated as withholding agents by the Tax Administration, in all their acquisitions.

- Those who have not been designated or qualified as withholding agents or special taxpayers by the SRI, only in the operations provided for in paragraph 2 of article 92 of the Regulation for the application of the LORTI

- **Transfer Pricing**

Reforms the technical and methodological measures to avoid transfer pricing abuse.

- **Reform of the Companies Act**

Issuance of the Companies Act Modernisation Act: The main reforms are:

- Concept of company and types of companies.
- Prohibitions
- Partners or shareholders, access to financial statements.
- Obligations to provide information.
- Variation of corporate control.
- Reduction of the share capital of a limited liability company.
- Redemption of shares.
- Transfer of shares in a limited liability company.
- List of partners of foreign legal entities.
- Causes for voluntary separation of partners.
- Grounds for settling disagreements.
- Public limited company may subsist with one shareholder.
- Incorporation of a joint-stock company.
- New requirements for incorporation of a joint-stock company.
- Absorption of losses.
- Heirs of a shareholder.
- Acquisition of own shares.
- Acquisition of own subsidiary shares.
- Liquidation for losses.
- Capital reduction
- Request for a meeting to be convened.
- Dividends and profits
- Constant figures in financial statements.
- Transfer of registered office abroad.
- Approval prior to entry in the Commercial Register.

Tax reforms year 2021

At the end of 2021 (November) the Organic Law for Economic Development and Fiscal Sustainability was issued in the wake of Pandemic Covid-19. Among the main reforms are:

- New Temporary Contributions for Economic Impulse.
 - Individuals who as of 1 January 2021 have an individual wealth equal to or greater than USD 1,000,000 or when there is a marital partnership equal to or greater than USD 2,000,000 will pay a contribution on their wealth until 31 March 2022 according to the following table.

From (USD)	To (USD)	Basic fraction	% Tax on Excess fraction
0	999.999,99	0	0,0
1.000.000	1.199.999,99	0	1,0
1.200.000	Onwards	2.000	1,5

- Companies carrying out economic activities will pay a temporary contribution on their net worth for the tax years 2022 and 2023. For this purpose, companies must have a net worth equal to or greater than USD 5,000,000 as of 31 December 2020 according to their income tax return.

The payment of the corporate tax will be made according to the following table:

From (USD)	To (USD)	Wealth Tax (%)
0	4.999.999,99	0,0
5.000.000,00	Onwards	0,8

- Public entities and companies, diplomatic and consular missions, international organisations and non-profit institutions are not subject to the payment of this contribution.
 - Contributions are eligible for payment facilities of up to 6 months without an initial payment.
 - The payment will not serve as a tax credit nor will it be deductible for the payment of other taxes.
 - In the event that the Internal Revenue Service determines that the corresponding declarations have not been submitted, a surcharge of 50% of the determined tax liability, plus interest, will be imposed; in the case of a partial declaration, a fine equivalent to 20% of the determined tax liability will be imposed.
- Reforms to the Internal Tax Regime Law

Tax residency of natural persons:

- In order for a natural person to be considered a non-resident of Ecuador, he/she must prove that the main core of his/her activities or economic interests are located in the other jurisdiction in which he/she establishes

his/her residence; otherwise, his/her tax residence in Ecuador will be presumed.

- The natural person resident in another jurisdiction may credit as a tax credit the tax already paid in his country of residence.

Exempt income:

- Income generated by the occasional alienation of real estate of natural persons, as long as it is real estate destined for housing, including its accessory goods such as car parks, warehouses and similar.
- Income from fixed-term deposits and fixed-income investments issued for a term of 180 calendar days or more, and which have remained in the possession of the holder for at least 180 days continuously.
- In commercial investment trusts, managed or collective investment funds and complementary funds, the minimum term of permanence of the investments established in the constitutive contract must be 180 calendar days or more and the holder of the units or quotas must hold them for at least the same term as indicated herein, on a continuous basis.
- The prohibition for National Financial Institutions to exempt the income they receive from deposits or investments is eliminated.
- The exemption foreseen for income obtained by taxpayers duly accredited before the Secretariat of Higher Education, Science, Technology and Innovation is eliminated.
- The exemption for financial returns originating from Ecuadorian public debt is eliminated.
- Profits received by tax or non-tax residents in the country, from the direct or indirect sale of shares, participations, other rights representing capital or other rights that allow exploration, exploitation, concession or similar, carried out in Ecuadorian stock exchanges, are considered as exempt income up to an annual amount of fifty basic fractions taxed at zero rate of income tax payment for individuals (USD 560,600.00 for the year 2021), provided that the amount transferred is less than 25% of the capital subscribed and paid by the company.
- The exemption from the payment of income tax for the development of new and productive investments defined in the Organic Law for the Promotion of Production, Attraction of Investments, Generation of Employ-

ment, Stability and Fiscal Balance is eliminated.

- The exemption for new and productive investments in economic sectors defined as basic industries is eliminated.
- The income tax exemption for the development of public projects in public-private partnerships is eliminated.
- The exemption from income tax on income obtained by taxpayers who carry out exclusive activities of any free digital technology with Ecuadorian value is eliminated.
- The exemption from income tax on the merger of entities of the popular and solidarity financial sector is eliminated.
- The exemption from income tax for new micro-enterprises is eliminated.
- The exemption from income tax for taxpayers who are administrators or operators of a Special Economic Development Zone (ZEDE) is eliminated.

Deductions of expenses and other aspects related to income tax:

- Deduction of an additional 100% on the values arising from the depreciation and amortisation of machinery, equipment and sustainable construction technologies, to the extent that they comply with the technical parameters and conditions established in the regulations issued for this purpose by the competent environmental authority.
- The deduction for the net increase in the number of employees is eliminated.
- The deduction for remuneration and social benefits paid to senior citizens and returned migrants over 40 years of age is eliminated.
- Article 10, numeral 13, which deals with the treatment of the provisions for eviction and employer retirement pensions for the year 2022, is eliminated. This referred to these provisions being administered by companies specialised in fund administration authorised by the Securities Market Law.
- The deduction of personal expenses for individuals is eliminated; instead, a rebate of the income tax caused is established, which will be 10% or 20% (as appropriate) of the result of the lower value between the personal expenses declared and the value of the basic basket multiplied by 7 and the taxable income obtained.

- The additional 100% deduction is eliminated, for 5 years, of the following expenses incurred by micro, small and medium-sized companies: Technical training aimed at research and technological innovation. Expenses for the improvement of productive activity: technological assistance through the hiring of professional services for the design of processes, products, adaptation and implementation of projects. Travel, accommodation and commercial promotion expenses.
- Up to an additional 150% may be deducted for advertising and sponsorship expenses incurred in favour of sportsmen, sports programmes and projects; in the event that the taxpayer intends to take the expense unduly, he/she will pay a fine equivalent to 100% of the value of the expense.
- An additional 150% deduction is allowed on amounts given for the granting of scholarships or grants to low-income students in dual and third or fourth level educational institutions. In case the taxable person intends to take the expenditure improperly, he/she will pay a fine equivalent to 100% of the value of the expenditure.
- An additional 150% deduction is allowed for expenses incurred for sponsorship and patronage of educational institutions at the elementary and high school level for scholarships, food, infrastructure, in public and tax-commissioned schools and colleges. In the event that the taxpayer intends to take the expenditure improperly, he/she will pay a fine equivalent to 100% of the value of the expenditure.
- The additional 100% deduction on expenses for the compensation of students in dual training and for education scholarships is eliminated.
- The deduction of an additional 50% is eliminated for ICE expenses generated in fixed and mobile telephony services, carried out by companies that are dedicated to the operation of call management.
- Expenses for production and sponsorship of cinematographic works and production and sponsorship of cinematographic works would be deductible up to an additional 150%.
- Expenses for private contributions for the promotion of arts and innovation in culture would be deductible up to an additional 150%.
- Expenses for donations, investments and/or sponsorships that are destined in favour of programmes, funds and projects of prevention, protection, conservation, restoration and environmental repair qualified by

the national environmental authority or whoever it designates, according to the technical regulations issued for this purpose, are deductible in an additional 100%, provided that they do not exceed 10% of the gross annual income received in the previous tax year by the taxpayer investor, sponsor and/or donor.

- The additional deduction for establishing the taxable base in Micro-companies is eliminated.
 - The 10-point deduction in the income tax rate for reinvestment of profits is eliminated.
 - The 10-point reduction in the income tax rate for operators of Special Economic Development Zones (ZEDE) is eliminated.
 - Individuals or companies that promote a public show will no longer have to declare and pay, as an advance payment of income tax, in addition to the voluntary advance payment, 3% of the income generated by the show.
 - The maximum amounts for the use of the benefits of agreements to avoid double taxation are eliminated. In this sense, the requirement to maintain a report certificate issued by independent auditors that supports that an expense is not taxable income in Ecuador would be eliminated.
- Tax Table for Individuals
 - A new income tax schedule for individuals is established for the year 2022:

Basic Fraction	Excess up to	Tax on the basic fraction	Tax on the excess fraction (%)
-	11.310,00	-	0
11.310,01	14.410,00	-	5
14.410,01	18.010,00	155,00	10
18.010,01	21.630,00	515,00	12
21.630,01	31.630,00	949,00	15
31.630,01	41.630,00	2.449,00	20
41.630,01	51.630,00	4.449,00	25
51.630,01	61.630,00	6.949,00	30
61.630,01	100.000,00	9.949,00	35
100.000,01	From now on	23.379,00	37

- Individuals or companies, whose activity is not related to urbanisation, land development, transfer of real estate and other similar activities, who have obtained taxable income from the occasional transfer of real estate, shall determine the profit on the sale of the real estate as established in the Regulations and shall have to include it in their overall income in the respective income tax return; the expenses incurred for capital gains are a tax credit.
- Individuals resident in the country and national companies that receive income abroad subject to income tax in the country of origin shall be entitled to use as a tax credit against income tax payable in Ecuador, the tax paid abroad on the same income, up to the amount corresponding to the tax attributable to such income in Ecuador.
- Tax incentives without an investment contract
 - Companies incorporated as from the entry into force of this law, new investments made by existing companies will enjoy a reduction of 3 percentage points on the applicable income tax rate for up to 15 years. For this, the following conditions and requirements must be taken into account: The reduction will apply only on income attributable to the new investment.
 - o Existing companies must maintain a cost centre to differentiate income attributable only to the new investment. The change of ownership of productive assets between related parties that are already in operation would not involve new investment. However, the acquisition of productive assets that are in operation will be recognised as a new investment. Companies must comply with criteria of transparency and economic substance. The percentage reduction shall in no case exceed the total amount of the investment, the term of 15 years. No registrations, authorisations or requirements of any nature will be required.
- Tax incentives with investment contracts
 - The companies that are constituted after this law comes into force, the new investments of existing companies, would enjoy a reduction of 5 percentage points on the income tax rate. For this, the following conditions and requirements must be taken into account: An investment contract must be signed. The reduction applies only to the income attributable to the new investment. Existing companies must maintain a cost centre to differentiate the income attributable only to the new investment. The change of ownership of productive assets between related parties that are already in operation would not imply new investment. The term of the relief is counted from the first tax year in which profits

attributable to the new investment are generated. The cumulative reduction should not exceed the amount of the investment or the term of the benefit stipulated in the investment contract. No registrations, authorisations or requirements of any other nature shall be required.

- Value Added Tax - VAT

New goods taxed at 12%

- Supplementary materials that are marketed together with books.
- Imports of goods by administrators or operators of Special Economic Development Zones (ZEDE).
- LED lamps.
- Electric cookers for domestic use and those that operate exclusively by means of electric induction mechanisms, including those with electric ovens, as well as pots for domestic use, designed for use on induction cookers and electric water heating systems for domestic use, including electric showers.

New goods taxed at 0%

- Masks, oximeters, alcohol and antibacterial gel above 70% concentration.
- Sanitary towels, tampons, menstrual cups and popular disposable nappies.
- The import of fuels derived from hydrocarbons, biofuels and natural gas, destined for the internal consumption of the country, carried out by taxable persons who have the respective permits issued by the Ministry of Industry.

New services taxed at 12%

- The supply of web page domains, servers (hosting), cloud computing.

New services taxed at 0%

- Services provided by tourist accommodation establishments to foreign tourists. These establishments must be registered in the National Tourism Registry and have the Single Annual Operating Licence.

Other VAT considerations

- The VAT tax credit entitlement in favour of exporters could be transferred not only to their direct suppliers, but also to those direct suppliers owned by the exporters and forming part of the same production chain up to their export.
 - Petrocomercial and fuel marketing companies will no longer withhold VAT on the marketing margin that corresponds to the distributor, but will do so according to the new conditions, requirements and procedure established by the law's regulations.
- Special Consumption Tax (ICE)

Taxable base of products taxed with ICE

- The streaming modality is included within the paid television services.
- The limit of USD 1,500.00 per year for the payment of ICE on memberships, affiliations charged to members and users of social clubs is eliminated.

Goods exempted from ICE

- Hybrid motor vehicles.
- Juices with a natural content of more than 50%.

Goods that will no longer be taxed with ECI

- Video games would no longer be taxed at an ECI rate of 35%.
 - Heaters and water heating systems for domestic use, which function totally or partially by gas combustion, would no longer be taxed at a 100% ECI rate.
 - Fixed telephony services and plans marketing only voice, data and SMS of the advanced mobile service provided to companies.
 - Mobile telephony services and plans provided to individuals.
- Elimination of Tax Regimes
 - The Simplified Tax Regime (RISE) was eliminated as of 2022.

- The Tax Regime for Micro-enterprises was eliminated as of 2022.
- The Simplified Regime for Entrepreneurs and Popular Businesses (RIMPE) was created.
- Reforms to the Tax Equity Law

Exemptions from the Foreign Exchange Outflow Tax - ISD are implemented for the following:

- Dividend payments made abroad, in an amount equivalent to the value of capital brought into the country, either as own financing without interest or as capital contribution, provided they have been used to make productive investments.
- Payments made abroad for the sale of shares or rights representing capital by companies or individuals not resident in Ecuador would be exempt from ISD.
- The transfer or transfer of foreign currency abroad is carried out by entities of Auxiliary Services of the Financial System qualified and incorporated in Ecuador, and correspond in a justified manner, to the payment and/or refund of values collected as part of the provision of services of electronic means of payment, provided that the income that the entity receives for the provision of such services is declared and taxed in Ecuador.
- Payments made abroad for the import of capital goods and raw materials made by companies that sign investment contracts, as of the entry into force of the Organic Law for Economic Development and Fiscal Sustainability after the Covid-19 Pandemic, up to the amounts, conditions and terms established in such investment contracts and/or addenda, provided that such acquisitions are necessary for the development of the project.
- General Provisions
 - The amounts paid for contributions shall not be subject to claim or request for undue or excess payment.
 - The President of the Republic by decree may reduce the VAT rate from 12% to 8% for tourist activities services, up to a maximum of 12 days per year.
 - Companies may avail themselves of the benefits of this law, even when permits, authorisations and other regulations are pending issuance.

- **Transitional Provisions**

- As of one year from the publication of the law (November 2021), all income taxpayers who are obliged to invoice must be incorporated into the electronic invoicing system. This provision shall not apply to taxpayers that are considered popular businesses in accordance with the provisions of this Law, provided that they are obliged to issue invoices in accordance with the regulations in force.
- Taxpayers registered in the National Tourism Register and have their operating licence may offset tax losses incurred in 2020 and 2021 against profits obtained in the next 10 years.
- Taxpayers registered in the National Tourism Registry who have not complied with their obligations before the SRI and the IESS during 2020 and 2021 will be able to access payment facilities for up to 48 months.
- Taxpayers who have administrative and judicial proceedings against the Tax Administration will be eligible for the mediation regime.
- Companies that were incorporated as from the entry into force of the Law on Productive Development, as well as new companies that were incorporated by existing companies for the purpose of making new investments will enjoy tax stability until the completion of their investments.
- No income tax shall be levied on the occasional alienation of real estate of natural or legal persons in the first transfer of ownership as from the publication of this law.

Tax reforms year 2022

Decree 339

By Executive Decree 339 published on 31 January 2022, the President of the Republic of Ecuador reduced the Value Added Tax (VAT) rate for certain holidays from 12% to 8% for the provision of services defined as Tourism Activities, in favour of natural persons or national or foreign companies.

Decree 384

By Executive Decree 384 published on 30 March 2022, the President of the Republic of Ecuador amended the Regulations of the Organic Law for Economic Development and Fiscal Sustainability following the COVID-19 pandemic. The most relevant provision is:

A reform is made to the Voluntary, Unique and Temporary Tax Regime for the Regulation of Assets Abroad which indicates that: Individuals and legal entities resident for tax purposes in Ecuador, who as of 31 December 2020 have kept abroad assets of any kind whose origin has been taxable income in Ecuador that have not been declared and who wish to avail themselves of the Voluntary Regime for the Regularisation of Assets must submit a sworn declaration before a Notary Public, in which they state their irrevocable will to avail themselves of the regime. With Decree 384, the sworn declaration must be submitted to the Internal Revenue Service (SRI), which will be confidential and reserved.

Decree 586

By means of Executive Decree 586 published on 31 October 2022, the President of the Republic of Ecuador issued reforms to certain regulatory bodies. The most relevant reforms are:

(a) Reforms to the Regulation for the Application of the Internal Tax Regime Law.

1. Changes in deductions of expenses and other aspects related to income tax:

- Unused provisions for eviction or employer's retirement must be reversed against taxable or non-income taxable income in the same proportion as they would have been deductible or not.
- When purchasing an asset that has been in use, the acquirer can reasonably estimate the probable remaining useful life to depreciate the acquisition cost. The useful life so calculated, added to the useful life of previous owners, may not be less than that provided for new property.
- When the capital subscribed in a company is paid in kind, the assets contributed must be valued in accordance with the terms established in the applicable rules on the matter. The contributor and those who appear as partners or shareholders of the company at the time the contribution is made, as well as the aforementioned experts, shall be liable for any loss suffered by the Treasury as a result of a valuation that exceeds the market value of the asset contributed at the time of the contribution. The same procedure shall apply in the case of mergers or spin-offs involving the transfer of assets from one company to another; in such cases, the aforementioned appraisal experts and the partners or shareholders of the merged, spun-off and spin-off companies that have approved the respective balance sheets shall be liable;

- When a taxpayer has proceeded to the revaluation of assets, the depreciation corresponding to such revaluation shall not be deductible; if a new value is assigned to completely depreciated assets, they may not be depreciated again. In the case of sale of revalued assets, the difference between the sale price and the residual value without considering the revaluation shall be considered as taxable income.
- For the application of the additional 100% deduction for depreciation corresponding to the acquisition of machinery, equipment and technologies destined to the implementation of cleaner production mechanisms, mechanisms for the generation of energy from renewable sources or the reduction of the environmental impact of productive activity, and the reduction of greenhouse gas emissions, the taxpayer shall obtain a certification from the competent environmental authority and in accordance with the secondary regulations in force issued for this purpose, on compliance with the technical parameters and conditions established regarding the machinery, equipment and technologies used in the economic activity generating the income subject to income tax, prior to the filing of the tax return for the first fiscal year in which the taxpayer intends to benefit from this deduction.
- Prior authorisation by the IRS for the application of accelerated depreciation is eliminated.
- Operations with phantom companies or non-existent transactions: the IR taxable base will not be reduced, nor will it be possible to request a refund or use the taxes incurred as a tax credit, except when the taxpayer proves the economic essence of the operation and its material sequentiality.
- Losses generated by the occasional transfer of real estate will not be deductible. The loss or discount generated in the sale of financial assets corresponding to trade credits or portfolio that are traded outside the stock market or with related parties shall not be deductible for individuals and/or non-financial entities.
- The loss or discount generated in the sale of financial assets corresponding to trade credits or portfolio that are traded outside the Stock Market or with related parties shall not be deductible for natural persons and/or non-financial entities.
- Expenses for technical and administrative consulting services (those involving the main application of knowledge, experience or skill of a spe-

cialised nature) and royalties (use or right of use of trademarks, patents, plant varieties and other types of intellectual property) shall be deductible up to 5% of the total taxable income of the current year, unless the limits indicated in the following cases apply:

- I. Taxpayers who are in the pre-operational cycle of the business may deduct up to 10% of the total assets.
- II. There shall be no deductibility limit in case the taxpayer only provides technical services to independent parties and its operating margin indicator is equal to or greater than 7.5%; in case it is lower, the following formula shall apply:

= Total deductibility limit of services and royalties incurred with related parties
- (7.5% Operating Sales).

There will be no deduction limit in the following cases:

- I. When the related party resident or permanent establishment in Ecuador has an effective tax rate equal to or lower than that of the taxpayer.
- II. When the total operations of royalties, technical, administrative and consulting services within the fiscal year do not exceed the 20 basic fractions of income tax deducted for individuals.

A higher deduction value may be requested by means of a prior valuation consultation.

The expense will not be deductible in its entirety if the asset for which royalties are being paid to related parties has remained with the resident company or permanent establishment in Ecuador for the last 20 years.

- In the case of non-financial entities, the impairment value of financial assets corresponding to bad debts that exceed the deduction limits provided for will not be deductible in the period in which they are recorded for accounting purposes; however, deferred tax will be recognised for the excess (as from tax year 2023).
- The difference between the financial depreciation of property, plant and equipment and the limits of deductibility of such depreciation will be considered as non-deductible. However, deferred tax will be recognised (from fiscal year 2023), which must be utilised from the fiscal period following the end of the financially established useful life.

- The period of conservation of documentation supporting the amortisation or depreciation will be counted from the tax period in which the use of the deductibility of the expense ended.
- For the application of the reduction of three percentage points (3%) of income tax for the development of new investments, the general corporate income tax rate applicable to the fiscal year in which the benefit is to be used shall be used.
- For the application of the special reduction of up to 5% of Income Tax for the subscription of Investment Contracts, the general corporate income tax rate applicable to the fiscal year in which the benefit is to be used shall be used.

2. Changes with respect to Value Added Tax (VAT)

- VAT withholding at source applies to payments and acquisitions made by special taxpayers to other special taxpayers, as well as payments made by public sector entities and agencies of the Central and Decentralised Government, its decentralised bodies and its public enterprises, universities and polytechnic schools in the country.
- Settlement of the tax: Taxable persons shall settle the tax on a monthly basis by applying the rates of 12% and 0% on the total value of sales or provision of services, as applicable. Transfers of goods or provision of services made by micro, small and medium-sized enterprises, as defined in the Organic Code of Production, Commerce and Investments, in which a term of more than one month has been granted for payment, shall be declared in the following month and paid within a term of up to 3 months, counting from the tax period following the date of issue of the invoice. Other taxpayers must declare them in the following month and pay them within the following month.
- In order to access the VAT refund for exporters of services, it is not necessary to comply with the parameters of regularity.

3. Changes with respect to the Special Consumption Tax (ICE)

- Refunds that have been made before the goods or services have been consumed will not form part of the taxable base of the ICE.
- For the calculation of the taxable base of the ICE on industrial beer, the participation in the Ecuadorian market according to total sales volume shall not be considered.

- The tax shall be levied even when perfumes or eau de toilette are transferred in an unbundled manner, with the components separately, through kits, sets or any other presentation.

4. Provisions for mining activity

- The following shall apply to the amortisation of investments of companies holding mining concessions and marketing licences and those that have entered into exploitation contracts:

I. Amortisation of investments made in the phases of prospecting, initial exploration, advanced exploration and economic evaluation of the deposit. - These investments must be amortised on a straight-line basis over five years, counted from the start of production, provided that they comply with the requirements of the tax and mining regulations. The amortisation must be directly related to each mining concession that corresponds to it.

II. Amortisation of complementary exploration investments during the exploitation phase. - These investments must be amortised on a straight-line basis over five years from the start of production, subject to certification by the competent authority. The amortisation must be directly related to each mining concession to which it corresponds.

III. Investments for the preparation and development of the deposit. - These amortizations must necessarily be made and related directly to each mining concession that corresponds to them and will be made in accordance with the method of Units Produced (UOP) from the start of production.

For the calculation of the amortization expense, the mining concessionaire shall consider the following items for each mining concession: i) Unamortized investments at the beginning of the fiscal year, ii) Total proven and probable mineral reserves approved by the Sectoral Ministry, Total production for the fiscal year.

- For depreciation of property, plant and equipment, the following shall apply:

I. Depreciable property, plant and equipment associated with mining reserves. - These assets will be depreciated based on the Units Produced (UOP) method from the start of production.

For this purpose, the mining concessionaire shall consider the following items for each mining concession: i) Undepreciated investments at the beginning of the fiscal year, ii) Total proven and probable mineral reserves approved by the

Sector Ministry and reported in the audit reports or production reports, iii) Total production for the fiscal year.

II. Depreciable property, plant and equipment not associated with mineral reserves. - These assets shall be depreciated on a straight-line basis over their useful life from the time they are available for use. The percentage of depreciation may not exceed the limits provided for in these regulations.

- The mining concessionaire shall be responsible for the separate recording of assets, liabilities, equity, income, costs and expenses for each mining concession and for each exploitation contract, as applicable. The financial statements obtained will serve as the basis for the filing of tax returns and will be those used for the calculation of royalties and other mining tax obligations.
- For tax purposes, professional services are understood to be those which, in order to be provided, require the involvement of accredited professionals with a degree and which are provided by legal entities or natural persons.
- For taxpayers who, in accordance with the provisions in force, are considered within the RIMPE Regime as popular businesses, the tax return shall be deemed to have been filed once payment has been made, provided that their gross income during the tax period declared has not exceeded the limit provided for in the Law.

Tax reforms year 2023

Decree 664

Through Executive Decree 664 published on January 10, 2023, the President of the Republic of Ecuador established for certain holidays the reduction of the Value Added Tax (VAT) rate from 12% to 8% for the rendering of services defined as Tourist Activities, in favor of individuals or national or foreign companies.

Organic Law to Promote the Violet Economy

Through Official Gazette No. 234 of January 20, 2023, the Organic Law to Promote the Violet Economy entered into force, whose objective is to strengthen, promote, guarantee and execute the mainstreaming of the gender and multicultural approach through the generation of incentives and public policies that encourage the civil population to empower women in their diversity. A summary of the different areas affected by this Law is as follows:

1. Tax sphere

Deductions corresponding to remunerations and social benefits on which contributions are made to the IESS, for the creation of a new job position destined to the hiring of women: will be deductible up to an additional 140%, depending on the time of permanence of the worker in the job position; without this can be counted for other deductions such as the incentive of net increase of employment, considering the following:

Time of permanence	Deducción Adicional
6 consecutive months during the respective fiscal year	100% additional
7 consecutive months during the respective fiscal year	120% additional
8 consecutive months during the respective fiscal year	130% additional
9 consecutive months during the respective fiscal year	140% additional

In the event of termination of the employment relationship for any reason, this tax incentive may continue to be applied as long as the job position is filled by another female worker under the same salary and contractual conditions.

In this case, the time of permanence in the job position will be cumulative, being able to enjoy this tax incentive for up to 3 fiscal years, according to the following detail:

- If the new positions for hiring women reach between 10% and 25% of the total payroll, the benefit will apply for 12 months.
- If the new positions for hiring women reach between 25.01% and 50% of the total payroll, the benefit will be extended to 24 months.
- If the new positions for hiring women exceed 50% of the total payroll, the benefit will be extended to 36 months.

This additional deduction will not be cumulative with the additional deductions referred to the hiring of employees with disabilities or workers who have a spouse or children with disabilities, dependent on them.

This benefit will not be applicable in the case of hiring workers who have been employees of the same employer, of relatives within the fourth degree of consanguinity and second degree of affinity of the employer, shareholders or legal representatives or of parties related to the employer in the 3 fiscal years prior to their hiring.

2. Labor scope and internship regime

- The labor governing body shall regulate the irregular distribution of the working week, which may be distributed irregularly within the 5 days of

the week, without exceeding 40 hours per week or more than 10 hours per day.

- In the selection processes, employers may not demand any requirement other than the competencies and capabilities necessary for the job.
- Companies must submit Equality Plans to the Ministry of Labor within one year after 20 January 2023.

Regarding maternity leave

- Every working woman is entitled to 12 weeks of paid leave for the birth of her daughter or son; in the case of multiple births, the period is extended for an additional 10 days. In this respect, it is stipulated that the mother may, by mutual agreement with the father, determine the way in which the 12 weeks of paid leave will be taken for the birth of a daughter or son, being able to agree on the exclusive use or shared use (up to a maximum of 75% of the leave may be shared with the father), circumstance that will be duly notified before the beginning of the maternity period to their respective employers, being this irrevocable once it has been communicated.
- During the 12 months following the birth, the working day of the nursing mother will last 6 hours in accordance with the beneficiary's needs. However, the mother may, by mutual agreement with the father, determine the way in which the paid leave for the breastfeeding period will be enjoyed, circumstance that will be duly notified before the beginning of the breastfeeding period to their respective employers, being this irremovable once it has been communicated.

Regarding the internship regime

- The General Instructions for Internships in force establish that companies with more than 100 stable and permanent employees shall be obliged to hire a number of interns of not less than 4% of the total number of their employees who have a professional degree granted by a Higher Education Institution.
- The approved Law to Promote the Violet Economy establishes that in order to comply with the minimum percentages of inclusion of interns in each company according to the type of activity and size of the same, the inclusion of female employees will have an additional 0.5% of the total number of employees.

3. Labor scope and internship regime

- All types of companies covered by the Company Law, at the time of the conformation of their boards, when these have 3 or more members, must observe that for every 3 members one of them is female.

Organic Law for the Strengthening of Family Economy

The Organic Decree Law for the Strengthening of the Family Economy was published in the Supplement to Official Gazette No. 335 of June 20, 2023, which reforms several legal bodies. The most important are the following:

1. Reforms to the rebate for personal expenses

In order to establish the maximum amount of the rebate, the following aspects, among others, must be observed:

- For individuals without family responsibilities, the amount of the rebate will be 18% of the lesser value between: the personal expenses declared in the respective fiscal year; and, the value of the basic family basket (CBF) multiplied by seven.
- For individuals with family responsibilities, the amount of the rebate will be 18% of the lesser of: the personal expenses declared in the respective tax year; and, the value of the basic family basket multiplied by the number of baskets corresponding to them, as follows:

Charges	Personnal	Expenses basket	18%
0	7	5.352,97	963,53
1	9	6.882,39	1.238,83
2	11	8.411,81	1.514,13
3	14	10.705,94	1.927,07
4	17	13.000,07	2.340,01
5 or more	20	15.294,20	2.752,96

- The value of the basic family basket, as of January of the fiscal year in respect of which the tax is settled, shall be taken into consideration.
- Parents, spouse or common-law partner and children up to 21 years of age or disabled of any age, provided that they do not receive taxable income and are dependent on the taxpayer, are considered as family charges.
- Personal expenses are recognized as personal expenses, in addition to those already applied, those corresponding to pets in charge of the tax-

payers, including the payment of alimony, national tourism in registered establishments and with annual operating license and art and culture.

2. Sole Income Tax on Sports Operators

- The Single Income Tax on income received by sports betting operators through internet or any other means is created, applicable as from fiscal year 2024.
- The taxable base for residents: The total income generated minus the total prizes paid in the same period.
- The taxable base for non-residents: The total of the values paid by the user in each transaction.
- The tax rate will be 15% and will be declared and paid on a monthly basis.

3. Reforms to the Value Added Tax

- Public shows will be taxed at a 12% rate.
- A 0% VAT rate will be applied in all transactions of popular businesses - RIMPE.

4. Reforms to the RIMPE Regime (As of 2024)

- The automatic inclusion to the regime in the first year of operation is eliminated for taxpayers that are registered in the RUC and their activity is not excluded from the regime.
- Cab drivers are allowed to be included in this regime.
- Income tax subject to RIMPE will be settled and paid until July of each year.
- The following are added as activities excluded from the regime: agents and representations, as well as commission agents, leasing activities of movable and immovable property.
- A table with a progressive rate is added for the payment of the Income Tax for Popular Businesses - RIMPE::

Lower limit	Upper limit	Tax payable (in USD)
0,00	2.500,00	0,00
2.500,01	5.000,00	5,00
5.000,01	10.000,00	15,00
10.000,01	15.000,00	35,00
15.000,01	20.000,00	60,00

- No withholdings for Income Tax or VAT will be made to the Popular Businesses - RIMPE.
- The Popular Businesses - RIMPE will not file VAT returns.

Regulation for the Application of the Organic Law for the Strengthening of the Family Economy.

On September 15, 2023, Executive Decree No. 876 was issued, through which the Regulation for the Application of the Organic Law for the Strengthening of the Family Economy was issued. The following is a summary:

1. Income Tax

Non-deductible expenses

- Loss on transfer of financial assets: Losses on transfer of commercial credits or portfolio will be non-deductible expenses as long as they are negotiated with related parties.
- Loss from the occasional transfer of real estate: Losses generated in the occasional transfer of real estate will be considered as non-deductible expenses provided that they are operations that, if they had generated profits, these would have been exempt.
- Sponsorships and sponsorships: In order to apply the deductibility and additional deduction, the contribution may be made by delivering the resources directly to the person or to the public or private company executing the project.

Personal expenses

- For the calculation of the personal expenses rebate, the value of the Basic Family Basket in force as of January of the fiscal year in respect of which the tax is settled will be considered, but if this information is not yet published, the last known value may be considered and the respective adjustment will be subsequently relocalized.

- The personal expenses subject to rebate must be supported by sales receipts of the taxpayer or of his family members duly registered.
- In no case, two or more taxpayers may consider the same person as a burden within the same tax period; they must comply with the conditions and requirements for their consideration as a burden or dependent.
- With respect to the form of withholding, the calculated amount of income tax to be withheld must be divided by 11 (previously by 12) and such amount must be withheld as from February (previously from January).
- The date for filing the Personal Expenses Projection Schedule is changed from January to February.

2. RIMPE Regime for Entrepreneurs and Popular Businesses (as from year 2024)

- Taxpayers who restart their activities in a period other than the one in which the RUC was suspended cannot belong again to the RUC.
- The taxpayers who restart their activities in a period other than that in which the RUC was suspended, cannot belong again to the RIMPE regime and will belong to the regime according to their economic activity.
- RIMPE regime and will belong to the regime according to their economic activity.
- The registry published by the SRI with the list of taxpayers that would be included in the scope of this regime is eliminated. They will be included from the moment of their registration or update of the RUC.
- RIMPE taxpayers categorized as Popular Businesses will be able to issue sales notes or invoices and other electronic documents, at their choice, in favor of their purchasers of goods or services.
- The restriction of considering VAT paid on purchases by RIMPE taxpayers categorized as Popular Businesses as a tax credit is eliminated, as well as its use in case of changes of regime (general to RIMPE or vice versa).
- The income tax incurred may be reduced by the amounts corresponding to tax credits to which it is entitled, but not by the reduction of personal expenses.
- In the case of companies under the RIMPE regime, the tax rate may not

be reduced or increased for failure to report the shareholder composition.

- The Income Tax return and payment must be filed annually until June (before March 3).

3. Tax Regime for Mining Sector Companies

- The IRS may issue resolutions and circulars of a general nature, as well as accounting treatment instructions and others necessary for the proper management of mining tax obligations and general tax obligations, applicable to all types of mining activities.
- For purposes of determining the amortization of investments, the start of production corresponds to that established in the Mining Exploitation Contract for the large-scale mining regime, and with the presentation of production reports for the small and/or medium mining regime.
- All regulations, procedures and mechanisms will be applied to verify the content and purity of the minerals to be commercialized, for the calculation of the general tax obligations applicable to all types of mining activities.
- Reassessment of royalties and/or withholding at source of income tax: The recalculation of the royalty will be calculated by applying the "royalty rate that corresponds" on the value obtained from multiplying the "difference in the mineral grade" by "the quantity" and by "the price recorded in the export invoice stated in the export certificate issued". The differences due to re-statement will be communicated by the SRI, who will require the presentation of the respective substitutive declaration for differences in the corresponding mining tax and fiscal obligations generated. In case of failure to comply with the aforementioned, the IRS will initiate a control process.

4. Single Income Tax for Sports Betting Operators

- Sports forecasting activities are those in which users or clients are allowed to predict the outcome of a sports competition, not only based on chance, but also on a probability analysis related to the success of an athlete or athletes.
- Sports Betting operators are included as IR withholding agents.

Organic Law on Economic Efficiency and Employment Generation

On December 19, 2023, the Organic Law of Economic Efficiency and Employment Generation was published in Official Gazette Supplement 461. The following is a summary of the most relevant tax aspects:

1. Temporary residence regime

- The concept of temporary tax resident is added, applicable to those who have not complied with the conditions to be Ecuadorian tax residents and have not been previously tax residents in Ecuador. Under this regime, individuals will pay income tax only on income considered to be of Ecuadorian source. The regime will be in force for 5 years from the fiscal year in which the following conditions are met:
- Make an investment of minimum USD 150,000.00 in real estate or productive activity with a minimum term of 5 years or,
- To have a proven income that is not of Ecuadorian source for at least USD 2,500.00 per month, having to be affiliated to the social security system during the time it remains in Ecuador.

2. Income tax exemptions

- For the income tax exemption for yields and benefits from time deposits or investments in fixed income securities, the quality of debtor for the use of credit cards will not be considered.
- Duly qualified Free Zone users will enjoy a 0% income tax rate for the first 5 years of declaration from the first year they generate income. Thereafter, their income tax rate will be 15% for the remaining time of their declaration. For companies in operation, this benefit will only be applicable for new investments.
- New productive investments focused on energy transition and security in Ecuador will be exempt from income tax for 10 years (not exceeding the total amount of the investment) counted from the first year they generate income attributable to such investment.
- Taxpayers that make investments in tourism of at least USD 100,000, of which at least 10% must be destined to rural tourism, will have 7 years of income tax exemption, counted from the first year that they generate income, exemption that must not exceed the amount of the investment.

3. Tax benefits - additional deductions

- An additional 50% of the expense of salaries and wages on which contributions have been made to the IESS may be deducted for hiring young people between 18 and 29 years of age (the deduction will be 75% if they are graduates or graduates of public universities or institutes) or persons obliged to pay alimony.
- Taxpayers who generate a net increase in employment in: a) the construction and agriculture sector or, b) for persons who have served a prison sentence of at least 1 year including their spouses or common-law partners (50% in the case of persons deprived of liberty without an enforceable conviction) may deduct 75% of their salary and wage expenses.
- All taxpayers may benefit from the tax stability system in the general income tax regime for 5 years in exchange for an increase of the general rate corresponding to the company by 2 percentage points each year.
- The taxpayers that reinvest their profits in programs or projects qualified as priority by the governing entities of disability, sports, culture and higher education, science and technology will have a percentage reduction of 10% and 8% in the rest of the programs and projects.
- In relation to the tax benefit of 150% deduction for advertising, promotion, sponsorship and/or patronage, other sectors to which it can be directed are incorporated, such as: low-income students in dual, third or fourth level training, private educational entities of basic and high school level, located in rural or marginal urban areas, national police, non-profit entities whose social purpose is the care of nursing mothers or people with disabilities, animal care, care of children and adolescents and construction of emergency housing solutions.

4. Deduction of expenses

- Depreciation expenses, interest, taxes and other items related to the ownership and use of vehicles whose acquisition cost exceeds USD 35,000 may not be deducted. Exceptions are armored vehicles, 100% electric, that generate 0 emission, that are exempt from vehicle tax, or that are dedicated to the rental of vehicles.
- Taxpayers that commercialize ultra-processed food will not be able to deduct advertising expenses, however, if they also produce and/or commercialize different goods or services, they will be able to deduct the proportional value.

- Persons with disabilities or dependents of persons with disabilities may take as personal expenses deduction the lesser value between 18% of their declared personal expenses of the fiscal year and the value of the basic family basket multiplied by 100.

5. Withholdings at source and self-withholdings

- Corporations considered as large taxpayers will not be subject to income tax withholding at source by any withholding agent, except in specific cases where the payer is a government or public institution.
- Large taxpayer companies shall make a self-withholding on their taxable income within such month, excluding the items on which they were subject to withholding. The withholding rate will be defined by the IRS according to the Tax Rate per economic activity.
- Income from the production and commercialization of mineral substances, coming from a mining concession or requiring the obtaining of commercialization licenses, will be subject to a withholding of up to 10%.
- Payments abroad made by tour operators will not be subject to withholding provided they are not in favor of a resident in tax havens, preferential regimes or jurisdictions of lower taxation.

6. Single income tax for sports betting operators.

- The figure of substitute is eliminated for individuals or corporations that make use of the sports forecasting platform.
- The general taxable base for sports betting operators will be the total income generated (including commissions), minus the total of the prizes paid in the same period, provided that withholding has been made at the time of payment of the prize in the percentages established for such purpose.
- In case of non-compliance with the formal duties by sports betting operators, the IP address used by the non-resident operator may be blocked, without prejudice to the financial penalty of up to 30 RBU of the worker in general.

Non-resident operators that carry out sports betting activities within the country must comply mainly with the following formal tax duties:

- Register in the cadastre of the single taxpayers' registry RUC.
- To appoint an agent resident in the country for all the effects derived from the administration of this tax.
- To declare and pay the Single Income Tax to sports betting operators according to the legal framework in force.
- Withholding at the source on the prizes paid.

This tax will apply as from July 1, 2024.

7. Controlled Foreign Company Regime

- The Controlled Foreign Company Regime (CFC) is created, defining a company that has a beneficial owner resident in Ecuador with an effective participation equal to or greater than 25% of capital, voting rights, right to dividends, profits, benefits or yields, liquidation surpluses or similar, which has an effective income tax rate lower than 60% of the rate applicable in Ecuador or whose applicable rate is unknown.

When applying the CFC regime, the passive income of the CFC company is attributed to the final beneficiary resident in Ecuador to the extent of its participation, provided that it has not been attributed to a permanent establishment that the CFC has in the country.

CFC income must be declared by the beneficial owner in its income tax return, and will be taxable in the period in which it is generated, even if it is not distributed.

- In order to calculate the taxable base, the net profit at the end of the year applicable to the CFC in its jurisdiction of residence will be considered. The tax paid abroad may be used as a tax credit and if a tax loss is generated, it may be amortised only with the subsequent tax profits attributed to the CFC.

8. Value added tax and refund:

- Goods brought into the country by users or operators of free trade zones will have a 0% VAT rate.
- Accommodation establishments may apply 0% VAT, in the case of accommodation for foreign tourists, provided that the transaction has been carried out through travel agencies or dual agencies.
- Individuals and companies that have paid VAT on local acquisitions or imports of goods and services for the construction of real estate projects will be eligible for a refund within 90 days (up to two projects per year).

- Individuals and companies paying VAT on the rental of electric vehicles or other zero-emission technologies are entitled to have this tax refunded without interest within 90 days.

9. RIMPE

- A progressive income tax schedule is established on income generated by popular business taxpayers.
- Income tax and VAT will be withheld from taxpayers categorised as RIMPE, for payments made through electronic means.

10. Penalties for non-delivery of Information

- In the event that natural or legal persons resident in the country do not submit or do not report the sales receipts, they will be sanctioned from 1 to 30 SBU.
- The penalty for concealment of assets will be 2% of the total undeclared assets or income for each month of delay in submitting the information, without exceeding 10%.
- Natural or legal persons, domiciled in the country, who do not submit the information required by the SRI will be sanctioned with up to 10 SBU and in the case of financial institutions and organisations of the popular and solidarity financial sector, their sanction will be between 100 and 500 basic remunerations.

11. Remission of interest, fines, surcharges and remissions

- The obligation to pay outstanding amounts of income tax for the year 2022 is waived for taxpayers RIMPE popular businesses.
- The remission of interest, fines and surcharges on internal tax or fiscal obligations whose administration and/or collection corresponds to the SRI is provided that payment is made within the first 150 days following the publication of this law.
- Taxpayers will be eligible for the remission of 75% of interest and fines, provided that the full amount of the obligation is paid within the first 7 days of the notification of the determining act.
- The provision stating that "natural persons and companies that avail

themselves of the remission of interest, fines and surcharges may not benefit from remission processes that may be established in the future for a period of at least 10 years" is eliminated.

12. Tax on foreign exchange outflows

- Payments for investments in managed or collective investment funds constituted in Ecuador will be exempt from ISD. Likewise, payments for the import of capital goods and raw materials made by companies that sign investment contracts as of 29 November 2021 are exempt.

13. Public-private partnerships

The regime for the attraction of investments through public-private partnerships is created, which regulates the participation of the private sector in projects developed in partnership with the public sector.

The maximum term of a public-private partnership contract may be up to 30 years, which may be extended once for an additional 10 years; in no case may the term be less than 5 years.

14. Organic Code of Production, Commerce and Investments.

- New investment shall be considered to be that made in productive assets that allow for the expansion of future productive capacity, generate a higher level of production of goods and services, and that obligatorily generate new sources of employment.
- The Strategic Committee for the Promotion and Attraction of Investments - CEPAI (the highest governmental governing body in investment matters) will be in charge of issuing a favourable opinion for the declaration of Free Trade Zones.
- The opinion of the governing body of public finances will not be required for each investment contract, provided that the amount of investment does not exceed the amount of investment.
- The taxable base for customs duties shall be the sum of the customs value of the goods plus the value of the freight.
- Imports of inputs, capital goods and raw materials carried out by Free Trade Zones are exempt from the payment of foreign trade taxes.

- The yields or dividends generated by the shares/participations of the operators or users are exempt for the payment of Income Tax of the shareholders of the operators and users of the Free Trade Zones.

15. Other reforms

- Exemptions for the application of the transfer pricing regime are eliminated.
- Bank transfer pricing must be applied to all payments over USD 500.00.

6. Other taxes

Other existing taxes in Ecuador are the following:

- Municipal tax on total assets. On total assets less current and contingent liabilities. Rate of 0.15%;
- Municipal Patent Tax. Up to USD 25,000 per year;
- Property Tax. On the assessed value of the property. Rate of 0.00025 to 0.005;
- Single income tax for banana sector activities. It implies the payment of a rate of up to 2% on the gross income obtained by local production and sale of bananas; and 3% on the income generated by banana exports.

Labor Participation in Utilities

According to the Labor Code, companies must pay employees and workers 15% of their earnings before taxes, this charge being deductible for purposes of calculating income tax.

Withholding tax on income at source

The Ecuadorian laws require to make an advance payment of income tax for the year through withholdings to the transactions that are made in that period to be declared.

They are deductions that are made between taxpayers at the time of acquisitions of goods or services (purchases). These tax advance withholdings are made in each transaction based on the values of the legal documents issued (Invoices, Sales Notes, etc.) and must be declared (paid) every month to the Treasury in Form 103 of Withholding Tax. The total withheld for the year is discounted from the value to be paid annually of the tax caused.

The established percentages of withholding tax on advance income tax range from 1% to 10% according to the nature of the transaction involved in the sale of products or services. In addition, a withholding tax of 25% or 35% is levied on payments abroad to non-residents.

Value Added Tax (VAT)

The Value Added Tax, levies on all services, those provided by the State, public entities, companies, or natural persons without an employment relationship, in favor of a third party, in exchange for a rate, a price payable in money, in kind, other services or any other consideration. Digital services are also subject to this tax. The rate is 12%.

The existing exemptions are: Health insurance, medicine, education, special regime for artisans as long as they do not exceed the limits to be obliged to keep accounts, transportation, housing rental, health services, veterinary products, religious institutions, electric power, import of fuels.

Withholdings of VAT

The rate of Value Added Tax in Ecuador is 12%. There is an obligation to withhold the Value Added Tax.

In Ecuador, it is also mandatory to retain among taxpayers a percentage of the Value Added Tax that declared each month on Form 104. This withholding is made by the party who makes the payment to the supplier for the receipt of goods or services. The percentages are determined based on the nature of the taxpayer's classification and depending on the transaction of goods or services. There are two types of taxpayers in Ecuador: Special Taxpayers and Other Taxpayers not classified as Special.

Taxpayers who are qualified as withholding agent: Special Taxpayer and the Other Taxpayers designated by the Internal Revenue Service that make up the respective cadastre.

Retention percentages vary and correspond to 10%, 20%, 30%, 50%, 70% and 100% depending on the type of company or natural person providing the service and the type of goods sold by the taxpayer. These withholdings are paid to the Internal Revenue Service in the monthly statement of sales and withholdings Form 104.

Dividends

Any distribution of dividends to all types of taxpayers, regardless of their tax residence, shall be considered as taxable income, except for distributions made to a company resident in Ecuador or to a permanent establishment in the country of a non-resident company, as provided for in the Law.

For income tax determination and liquidation purposes, dividends and profits, calculated after payment of income tax, distributed by national or foreign resident companies resident in Ecuador, in favour of other national companies, are exempt. Capitalisation of profits will not be considered as distribution of dividends.

Withholding tax on dividends

From 2020 onwards, any distribution of dividends to all types of taxpayers, except to resident companies or permanent establishments in the country of a non-resident company, will be considered taxable income.

The taxable income is equal to 40% of the dividend effectively distributed. The following table must be applied to this item to determine the dividend withholding tax:

Ingreso gravado desde (Fracción Básica)	Ingreso gravado hasta (Fracción excedente)	Retención sobre Fracción Básica	% Retención sobre fracción excedente
-	20.000,00	-	0
20.000,01	40.000,00	-	5
40.000,01	60.000,00	1.000,00	10
60.000,01	80.000,00	3.000,00	15
80.000,01	100.000,00	6.000,00	20
100.000,01	En adelante	10.000,00	25

Use of the tax credit by the beneficial owner

The beneficial owner (individual resident in Ecuador) may use the dividend withholding or the tax paid on the distribution of dividends made through companies resident or not in Ecuador as a tax credit.

Double Taxation Avoidance Agreements

Ecuador applies Decision 578 of the Andean Community of Nations (Ecuador, Colombia, Peru and Bolivia), which prevents and alleviates double taxation

between member countries. Decision 578 of the Andean Community of Nations indicates that income of any nature obtained shall only be taxed in the member country where such income has its source.

In addition, Ecuador has Double Taxation Agreements with the following countries:

- Germany (Official Register No. 493 of August 5, 1986)
- Belgium (Official Gazette No. 312 of April 13, 2004)
- Brazil (Official Register No. 865 of 2 February 1988)
- Canada (Official Register No. 484 of 31 December 2001)
- Chile (Official Register No. 189 of 14 December 2003)
- Spain (Registro Oficial No. 253 of 13 August 1993)
- France (Registro Oficial No. 34 of 25 September 1992)
- Italy (Registro Oficial No. 407 of 30 March 1990)
- Mexico (Ratification of the Convention in Official Register No. 201 of 10 November 2000 and publication of the text in Official Register No. 281 of 9 March 2001)
- Romania (Official Register No. 785 of 20 September 1995)
- Switzerland (Original text in Registro Oficial No. 788 of 25 September 1995 and Protocol in Registro Oficial No. 178 of 5 October 2000)
- Agreement between the Government of the Republic of Ecuador and the Government of the Republic of Argentina to avoid Double Taxation in relation to air transport
- Agreement between Ecuador and Uruguay to avoid Double Taxation (Supplement to Official Gazette No. 885 of 4 February 2013)
- United Arab Emirates, September 2012
- South Korea, 25 August 2011
- Agreement to avoid double taxation and tax evasion between Ecuador and China (Third Supplement to Official Gazette No. 147 of December 19, 2013)
- Agreement between Ecuador and Japan to Eliminate Double Taxation with Respect to Income Taxes and the Prevention of Tax Evasion and Avoidance (15 January 2019)
- Convenio entre Ecuador y Qatar para le Prevención de la Evasión Fiscal en materia de Impuesto a la Renta (21 de junio del 2022)

Other laws and regulations

- **Antitrust Law**

As of October 2011, Ecuador has an Organic Law for Regulation and Control of Market Power. This law establishes which are the conducts that can prevent, restrict or distort competition. It establishes the procedure for its investigation and, if determined, its sanction.

Regulated activities

The following conducts are subject to regulation, control and sanction, if applicable, of this law:

- Market Power Abuses;
- Collusive agreements between two or more economic operations;
- Economic concentration operations;
- Unfair practices.

Economic Operators

They are the subjects governed by this law. They can either be natural or legal persons, public or private, national or foreign, with or without profit. They can be people inside or outside Ecuador. If it is outside of Ecuador, it is enough for its acts or agreements to have an effect on the Ecuadorian market.

Transfer Prices

The legislation on Transfer Pricing in Ecuador is applicable since 2005 and, according to the Internal Tax Regime Law and its Regulations in effect as of 31 December 2016 and 2015, it is intended to regulate for transactions purposes transactions carried out between the related parties (local and/or external), so that the considerations between related parties must respect the Principle of Full Competition (Arm's Length).

The Internal Revenue Service on 29 May 2016 modified the regulations on transfer pricing and established that taxpayers of Income Tax whose accumulated amount of operations with related parties are greater than USD 3,000,000 must file the Annex of Operations with Related Parties; and for an amount exceeding USD 15,000,000, they must file the Comprehensive Transfer Pricing Report, as well as establish the operations that should not be contemplated for such analysis.

Taxpayers who are exempt from the Transference Price Regime include those who:

- File a tax that is greater than 3% of the taxable income are exempt from the Transfer Pricing Regime;
- Do not carry out operations with tax havens or preferential tax regimes; and
- Hold no contracts with the state for the exploration and exploitation of non-renewable resources. However, they must file a detail of the operations with related parties from abroad in a period no longer than one month from the date of the declaration of Income Tax.

The Regulation for the Application of the Law of Internal Tax Regime states that taxpayers of Income Tax, who carry out transactions with related parties, in addition to their annual income tax return, shall file at the Internal Revenue Service the Schedule of Income Tax. Transactions with Related Parties and Comprehensive Transfer Pricing Report, within a period no longer than two months from the date on which the income tax declaration is required.

On 13 September 2023 the Internal Revenue Service by Resolution NAC-DGERCGC23-00000025 modified some of the provisions related to the application of the Transfer Pricing Regime, as follows:

- The limit of the obligation to file the Annex of Transactions with Related Parties is maintained for taxpayers whose cumulative amount of transactions with related parties exceeds USD 3,000,000.
- As of fiscal year 2023, the limit of the obligation to file the Comprehensive Transfer Pricing Report decreases for those taxpayers that have transactions with related parties in excess of USD 10,000,000 (previously USD 15,000,000).

For the purpose of calculating the accumulated amount of transactions between related parties, the exceptions to be considered in such amount are clarified (as highlighted below), establishing that, in addition to excluding equity contributions in cash, in US dollars, offsets or reclassifications of accounting accounts of assets, liabilities or equity, provided that they do not affect results and transactions with Ecuadorian public law entities or Ecuadorian public companies, would be excluded:

Payments in cash, in US dollars, of capital income (dividends) or liabilities (capital payments).

- Income from the banana sector, agriculture and international transport companies, as well as assets, liabilities or expenses of the taxpayer attributable to the activity generating such income.
- Transactions that are covered by a methodology approved via a prior valuation consultation (without mentioning transactions between local related parties).
- Liability transactions, with the exception of those corresponding to loans contracted in the tax period being reported.

- Transactions with local related parties with reference to the fiscal period under review, with the exception of those that meet any of the following conditions:
- Where the related party with which the taxable person carries out such transactions derives income from the banana sector, agriculture and livestock and international transport companies; or,
- When the taxable person:
 - Declares an IR taxable base of less than zero;
 - Has taken advantage of any type of income tax exemption;
 - He has availed himself of a total or partial reduction or rebate of the income tax rate;
 - Is the administrator or operator of a Special Economic Development Zone;
 - Is engaged in the exploration or exploitation of non-renewable natural resources;
 - Has rights holders representative of its capital who are resident or established in tax havens or lower tax jurisdictions.

Submission of the comprehensive Transfer Pricing Report

It shall be submitted in digital file in PDF-text format through the channels made available to taxpayers by the SRI, which reports on its web portal, and shall be prepared in accordance with the technical rules for the application of the transfer pricing regime and the priority in the use of the methods for applying the arm's length principle, contained in Resolution No. NAC-DGERCGC16- and its amendments, and also in accordance with the provisions of the technical sheet for the standardisation of the transfer pricing analysis published in Resolution No. NAC-DGERCGC16- and its amendments. NAC-DGERCGC16- 00000532 and its amendments, and, in addition, in the provisions of the technical sheet for the standardisation of the transfer pricing analysis published on the website www.sri.gob.ec.

- All previously submitted transfer pricing analysis working papers shall be attached to the Transfer Pricing Report.
- A letter signed by the taxpayer shall be attached in which reference is made to the contents (table of contents), including at the end the sentence: "I declare that the information provided does not contain false or erroneous data and is on file with the taxable person."
- A new Comprehensive Transfer Pricing Report may not be submitted in respect of a tax year in respect of which the IRS has exercised its assessment power.
- The information contained in the annex and in the report is confidential.

Changes to the technical rules for the application of margin methods for applying the arm's length principle.

In the event that information from third parties, aggregated on the basis of criteria and accounting periods, is used as comparable, it shall be understood that, in the absence of financial information for the year under analysis for any of the comparable operations, the information from the immediately preceding year (whose accounting close is after 30 June of that year) may be used only for those cases, provided that it is demonstrated that the relevant conditions in both periods did not change.

Contributions to social security

Compulsory General Insurance is part of the national social security system and its organization and operation is based on the principles of solidarity, obligation, universality, equity, efficiency, subsidiarity and sufficiency.

All persons who receive income for the execution of a work or the provision of a physical or intellectual service, with or without an employment relationship are subject to protection. Below are the contribution rates by affiliate activity:

TABLE OF DISTRIBUTION OF CONTRIBUTION RATES TO IESS			
SOCIAL SECURITY			
Affiliate Activity	Contribution		Total %
	Personal %	Employee %	
Of the workers of the private sector under dependency relation, as well as of the members of the secular clergy.	9.45	11.15	20.60
Of the bank employees, municipal and decentralized public entities, notaries, property registrars and mercantile registrars.	11.45	11.15	22.60
Of the public servants, including the Magisterium and the officials and employees of the judicial function or of other dependencies providing public services, by means of variable remuneration in the form of tariffs or similar.	11.45	9.15	20.60
Of the foreign service officials residing abroad.	9.45	9.15	18.60
Of the foreign service officials residing abroad.	18.80	22.30	41.10
Of self-employed workers without a dependency relationship.	-	-	20.50
Of the voluntary affiliates.	-	-	20.50

* In addition, the IESS collects from the Employer 1% or 2%, on the salaries of employees. This contribution is for the contribution of training and citizen knowledge.

7. Individuals

Residents

Individuals who are in any of the following conditions will be considered fiscal residents of Ecuador, in reference to a fiscal year:

- When their stay in the country, including sporadic absences, is 183 calendar days or more, consecutive or not, in the same fiscal period.
- When their stay in the country, including sporadic absences, is 183 calendar days or more, consecutive or not, in a period of 12 months within 2 fiscal periods, unless they prove their fiscal residence for the corresponding period in another country or jurisdiction. If you prove your tax residence in a tax haven or lower tax jurisdiction, you must prove that you have stayed in that country or jurisdiction at least 183 calendar days, consecutive or not, in the corresponding fiscal year.
- In the event that a tax resident in Ecuador later accredits his / her tax residence in a tax haven or lower taxation jurisdiction, he / she will maintain the status of fiscal resident in Ecuador until the following 4 tax periods.
- The main nucleus of its economic activities or interests is in Ecuador, directly or indirectly. A natural person will have the main nucleus of their activities or economic interests in Ecuador, provided that they have obtained, in the last twelve months, directly or indirectly, the highest value of income with respect to any other country, valued at the average exchange rate of the period. Likewise, a natural person will be considered to have the main core of his economic interests in Ecuador when the greatest value of his assets is in Ecuador.
- Has not stayed in any other country or jurisdiction more than 183 calendar days, consecutive or not, in the fiscal year and their closest family ties keep them in Ecuador.

Non-residents

A person is not a resident when they do not comply with the above conditions.

Income Categories

The following are considered to be income from Ecuadorian sources:

- Income from work activities:

- For activities developed abroad;
 - For the profits from the alienation of chattels or real estate located in the country;
 - The benefits or royalties of any nature, arising from copyright;
 - Those from exports;
 - Interest and more financial returns;
 - Those coming from lotteries, raffles, bets and similar;
 - Those coming from inheritances, legacies, donations and finding of goods located in Ecuador;
 - Any other income.
- **Taxable:**
 - Salaries;
 - Bonuses;
 - Extras Benefits;
 - 15% of the profits distributed by the company to employees;
 - Dividends distributed to workers as partners of the company;

Exempt:

- Thirteenth remuneration;
- Fourteenth Compensation;
- Reserve fund;
- Compensation for dismissals up to the maximum allowed;
- Social Security retirement pensions;
- Employer Retirement Pensions;
- Particular insurance indemnity;
- Occasional sale of real estate (land, premises, buildings, others);
- Those received by people over 65 years of age in an amount equivalent to twice the basic fraction exempt in each year.

Basic Fraction	Excess up to	Basic Tax Fraction	Excess Tax Fraction (%)
0	11.722,00	0	0
11.722,01	14.930,00	0	5
14.930,01	19.385,00	160	10
19.385,01	25.638,00	606	12
25.638,01	33.738,00	1.356	15
33.738,01	44.721,00	2.571	20
44.721,01	59.537,00	4.768	25
59.537,01	79.388,00	8.472	30
79.388,01	105.580,00	14.427	35
105.580,01	From now on	23.594	37

Personal Expense Deduction Year 2023

From the tax year 2023 onwards, individuals will be entitled to an income tax rebate on their personal expenses for: housing, education, art and culture, food, clothing, tourism and health, all of which entitle them to an income tax rebate. For the fiscal year 2023, the maximum amount of the rebate will be given according to the person's family responsibilities or if the person has or is in charge of persons with catastrophic illnesses.

For the calculation of the personal expenses rebate, the value of the Basic Family Basket in force as of January of the fiscal year in respect of which the tax is settled shall be considered, but if this information has not yet been published, the last known value may be considered and the respective adjustment shall be subsequently relocalised.

In order to establish the maximum amount of the rebate, the following aspects, among others, shall be observed:

For individuals without family responsibilities, the amount of the rebate shall be 18% of the lower of: the personal expenses declared in the respective tax year; and the value of the basic family basket (CBF) multiplied by seven.

For natural persons with family responsibilities, the amount of the rebate shall be 18% of the lesser of: the personal expenses declared in the respective fiscal year; and, the value of the basic family basket multiplied by the number of baskets that correspond to it, as follows:

Charges	baskets	Personal expenses	18%
0	7	5.352,97	963,53
1	9	6.882,39	1.238,83
2	11	8.411,81	1.514,13
3	14	10.705,94	1.927,07
4	17	13.000,07	2.340,01
5 or more	20	15.294,20	2.752,96

Parents, spouse or common-law partner and children up to the age of 21 or children with disabilities of any age, provided that they do not receive taxable income and are dependent on the taxable person, are considered to be family charges.

In addition to those already applied, personal expenses are recognised as personal expenses corresponding to pets in the charge of the taxpayer, including the payment of alimony, domestic tourism in registered establishments and with an annual operating licence, and art and culture.

Personal expenses eligible for rebate must be supported by sales receipts of the taxpayer or of his or her duly registered family members.

In no case may two or more taxpayers consider the same person as a burden within the same tax period; they must comply with the conditions and requirements for their consideration as a burden or dependent.

With regard to the withholding method, the calculated amount of income tax to be withheld must be divided by 11 (previously by 12) and said amount must be withheld as from February (previously from January).

The date for submitting the Personal Expenses Projection Annex has been changed from January to February.

Period to Declare the Income Tax

The period to declare the income tax of natural persons begins on the first of February and extends until the month of March of each year. The expiration dates are from 10 to 28 March, depending on the ninth digit of the Single Taxpayers Registry (RUC) and according to the following scale of dates:

INCOME TAX EXPIRATION TABLE	
Ninth digit of the RUC	Due date
1	March 10
2	March 12
3	March 14
4	March 16
5	March 18
6	March 20
7	March 22
8	March 24
9	March 26
0	March 28

8. Tax on heritage

8.1 Income from Inheritances, legacies and donations

Heritage

It is the right to inherit or to succeed. The goods are transferred by succession.

Inheritor

Person who, by legal disposition, testamentary or exceptionally by contract, happens in whole or in part of an inheritance, that is, in the rights and obligations that he had at the time of death of the deceased to whom it happens.

Legacy

It is a testamentary disposition made for the benefit of a physical and moral person. According to the Ecuadorian Civil Law, legacy means a kind of donations made in a testament or in another act of last will, that is, the order that a testator leaves in his will or codicil, which is nothing other than the disposition of last will, made before or after the will, either to give secondary instructions or in

order to add, dictate or clarify something about that document, or cancel it. It is a gratuitous provision that must be made to a specific person.

Donation

Donation in general terms means gift, contribution, present, endowment and liberality.

Usufruct

It is the right to use the alien and perceive its fruits, such as: profits, benefits, remunerations, advantages that are obtained from a thing, person or position. The usufruct can be of several kinds such as: conventional, imperfect, judicial, legal, normal, particular and life.

8.2 Subject of tax

Property taxes are subject to income tax from natural persons or companies from inheritances, legacies and donations.

This tax is levied on patrimonial growth motivated by the transition of ownership and free transfer of goods and rights located in Ecuador, whichever the place of death or the nationality of the deceased, address or residence of the deceased or donor or his heirs, legatees or grantees.

It also taxes the transfer of ownership or the transfer of goods and rights owned by the deceased or possessed by the donor abroad or in favour of residents in Ecuador.

Who are not subject to the payment of this tax or have tax benefits?

In inheritances or legacies, children of the deceased who are minors or disabled in the percentage and proportionality indicated in the Regulations of the Organic Law on Disabilities are not subject to tax.

For the beneficiaries of inheritances and legacies, who are within the first degree of consanguinity with the deceased, the rates of the preceding table will be reduced by half; that is to say, 50% of the value of the tax obtained after applying the table will be reduced.

Table on Inheritances, Legacies and Donations

Year 2023 - In USD			
Basic Fraction	Excess up to	Basic Tax Fraction	Excess Tax Fraction (%)
0	72.750	0	0
72.750,01	145.501	0	5
145.501,01	291.002	3.638	10
291.002,01	436.534,00	18.188	15
436.534,01	582.055	40.017	20
582.055,01	727,555	69.122	25
727.555,01	873.037	105.497	30
873.037,01	And up	149.141	35

Transitional provision (Organic Law for Economic Development and Fiscal Sustainability after Pandemic Covid-19).

Persons who must declare or pay amounts corresponding to income tax arising from the increase in assets from inheritances as a result of the death of their relatives between 15 March 2020 and 31 December 2021, shall be beneficiaries of the exemption incorporated by this Law. This exemption does not entitle those who have already paid this tax to a refund or claim of any kind.

8.3 Patrimonial declaration

Individuals residing in Ecuador, whose assets on the first of January of each year exceed USD 234.440 must declare their assets, considering for the calculation, the percentage that corresponds to them in the conjugal partnership or de facto marriage they integrate, and the percentage of his children are not emancipated.

Likewise, those maintaining a conjugal partnership or de facto marriage must file a joint return if their common assets exceed USD 468.880. However, if either of the spouses or cohabitants maintains assets outside the conjugal partnership or de facto marriage, the declaration will be individual.

The information must be sent over the Internet, according to the following schedule:

Ninth Digit of the RUC or Professional license	Maximum presentation date
1	May 10
2	May 12
3	May 14
4	May 16
5	May 18
6	May 20
7	May 22
8	May 24
9	May 26
0	May 28

9. New Special Income Tax Regime for Entrepreneurs and Popular Businesses-RIMPE

With the issuance of the Organic Law for Economic Development and Fiscal Sustainability after the Covid-19 Pandemic in November 2021, the RIMPE regime is established for the payment of income tax to entrepreneurs and popular businesses regulated in accordance with the provisions contained in this law.

Subjection to the RIMPE does not exclude the application of the ordinary regime, with respect to activities not covered by it.

9.1 Active subject

The active subject of the RIMPE regime is the Ecuadorian State and will be administered by the Internal Revenue Service.

9.2 Taxpayers

This regime applies to individuals and legal entities with an annual gross income of more than zero and up to USD 300,000 as of 31 December of the previous year.

Within this regime, those taxable persons constitute popular businesses, natural persons, with an existing gross income of up to USD 20,000 in the financial year of the immediately preceding year.

Gross income shall mean the taxable income received by the taxable person, mi-

nus discounts and refunds. Taxpayers under the RIMPE regime shall pay Income Tax according to the corresponding progressive table, applicable on the gross income of the respective fiscal year, exclusively with respect to income from activities not excluded from it.

This regime includes artisans and entrepreneurs according to the definition set out in the relevant law.

9.3 Duration of the Scheme

This regime shall be compulsorily applicable for a peremptory term of 3 years as from the first tax return, provided that the taxpayer does not receive gross income in excess of USD 300,000. In the event that the taxpayer receives gross income in excess of the amount established above, the taxpayers covered by the regime shall settle the taxes under the general income tax regime. Taxpayers who maintain their status as popular businesses will remain under the RIMPE regime for as long as they maintain that status. Once the taxpayer has been excluded from the RIMPE regime, it will not be able to re-enter the regime.

9.4 Tax rate

Taxpayers within the RIMPE regime will pay Income Tax according to the following progressive table:

Lower limit	Upper Limit	Tax on the basic fraction	Marginal rate (%)
-	20,000	60	0.00
20,000,01	50,000	60	1.00
50,000,01	75,000	360	1.25
75,000,01	100,000	672.50	1.50
100,000,01	200,000	1,047.50	1.75
200,000,01	300,000	2,797.52	2.00

In the event that a taxpayer within the RIMPE exceeds the upper limit of three hundred thousand United States dollars within the tax year, the excess shall be

paid at the marginal rate provided for the latter range. Such taxpayer shall be subject to the ordinary income tax regime in the following tax year.

9.5 Formal duties

- Keep a record of income and expenses and declare the tax according to the results thereof.
- Issue sales receipts in accordance with the Regulations on Sales, Withholding and Supplementary Documents. In the case of popular businesses, they shall issue sales notes in accordance with the regulations in force.
- Payments made by taxpayers subject to this regime must comply with the amounts of the bank charges.

9.6 Declarations and forms of payment

- Income tax must be paid annually until 31 March of each fiscal year in accordance with the general resolutions issued by the Internal Revenue Service for this purpose.
- Taxpayers considered as withholding agents shall withhold VAT and income tax from taxpayers covered by the system, in accordance with the general withholding regulations.
- The value of the withholdings shall constitute a tax credit for the payment of the RIMPE Tax.

9.7 Value Added Tax

The Value Added Tax generated in the application of the present regime by the taxpayer shall be settled and paid on a half-yearly basis, in accordance with the corresponding legal and regulatory provisions, except in the case of popular businesses as established below.

In the case of popular businesses, the payment of income tax shall include the payment of the value added tax generated by the transfer of goods, provision of services or rights covered by their activity.

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