



**TAXES IN
IMPUESTOS EN AMERICA**

2021

THIRD EDITION / TERCERA EDICIÓN

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Ecuador




 **Capital city:**
Quito

 **Aera:**
283,560 km²

 **Population:**
17,373,660

 **Language:**
Spanish

 **Political system:**
Presidential republic

 **GDP/capita 2019:**
USD 6,183

 **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 Corporation Law recognizes some types of companies. The most common are limited liability companies and corporations. It is also possible that a foreign company is established 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;
- Additionally, the partners or shareholders of these entities must be identified abroad, with a certificate issued by the company's secretary identifying their partners or shareholders. Shares or participations of foreign

companies that are founders of a local company cannot be "bearer", that is, they must be nominative;

- 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 law does not allow restriction regarding the nationality of the partners or shareholders, neither does it exist regarding the nationality of the administrators / representatives of the companies. At least one of them must be based permanently in Ecuador.

Any company operating in Ecuador is subject to external audit as long as it exceeds USD 500,000 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. Income tax to companies

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.

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.

Reduction of the tariff in specific cases

The usual exporting companies, as well as those engaged in the production of goods, including those of the manufacturing sector, that have 50% or more of national component and those receptive tourism companies, as determined by the Regulation to this Law, that reinvest their profits in the country, may obtain a reduction of 10% of the income tax rate on the amount reinvested in productive assets, provided that they are used for the acquisition of new machinery or new equipment, assets for irrigation, vegetative material, seedlings and all vegetable input for agricultural production, aquaculture, forestry, livestock and floriculture, which are used for their productive activity, as well as for the acquisition

of goods related to research and technology that improve productivity, generate productive diversification and increase in employment; to do so, they must make the corresponding capital increase and comply with the requirements established in the regulations to this Law. Capital increase (reinvestment of profits) will be perfected with the inscription in the respective Mercantile Registry up to December, 31% of the fiscal year subsequent to that in which profits were generated, subject matter of the reinvestment.

The aforementioned rule states that in case income tax caused is less than the minimum advance amount.

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.

On 4 September 2020, the advance payment of the Income Tax is established: They are obliged to pay the advance payment of the income tax, charged to the fiscal year 2020, natural persons and companies that: Obtain income taxed with income tax. income, except those from work in a dependency relationship, which in fiscal year 2019 have received gross income in an amount equal to or greater than USD 5.000.000, have obtained accounting profit during the period from January to June 2020, excluding the income and expenses of the work in relation of dependency.

Contribution Single and temporary contribution

With the same law of December 2019 (Organic Law of Tax Simplification and Progressivity), the companies that carry out economic activities, and that have

generated taxable income equal to or greater than USD 1,000,000.00 in fiscal year 2018, they will pay a one-time and temporary contribution, for fiscal years 2020, 2021 and 2022, on said income, according to the following table:

Income tax from	Income tax until	rate
1.000.000,00	5.000.000,00	0,10%
5.000.000,01	10.000.000,00	0,15%
10.000.000,01	En adelante	0,20%

This contribution will only be for three years based on the year 2018.

In no case will this contribution be greater than 25% of the Income Tax Caused for the 2018 fiscal year. This contribution is not deductible, nor can it be used as a tax credit and is not applicable for public companies.

Tax Incentives

In 2010, the Production and Investment Code is issued and includes special tax benefits and a reduced income tax rate of 17% for companies that use the Special Zones of Economic Development (ZEDES), a regime that replaces the Frank Zones.

Based on this Production Code, companies that invest in priority economic sectors (forestry, tourism, clean energy, biotechnology, petrochemicals, etc.) enjoy a 5-year, 100% exemption from income tax and deduction of 100% additional cost or annual depreciation expense in accordance with the law.
Incentive of tax stability in investment contracts.

Companies that make investments for the exploitation of metallic mining to medium and large scale, according to the conditions established in this chapter, will be entitled to benefit from the tax stability, for a determined time, from the subscription of an investment contract.

Said tax stability may also be granted at the request of a party, in the investment contract of the companies of other sectors, including basic industries, which make productive investments for the development of the country, provided that:

- The amount of the investment is greater than USD 100,000,000;
- Technical report made by the Ministry with competencies in the field of investment, on the economic benefits that such investment will bring to the country;
- Report of the State Attorney General;
- Authorization of the President of the Republic for the signing of a contract in which the requirements, amounts and terms to make the investment,

as well as the commitments assumed by the investor, will be regulated.

The term of validity of the tax stability will be at most, the term of the investment contract subscribed.

Exemptions from the Exit Tax

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.

Payments made abroad, from financial returns, capital gains and capital from investments made abroad, in securities issued by legal persons domiciled in Ecuador, who have entered the country and remained as the minimum term indicated by the Tax Policy Committee, which may not be less than one year, is intended to finance housing, microcredit or investments provided for in the Production Code. This exemption does not apply when the payment is made directly or indirectly to individuals or resident companies.

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.

Exit Tax

All foreign currency going abroad must pay a 5% tax. The taxable base of the

Foreign Currency Outflow Tax (ISD) is the amount of the transfer of foreign currency, accreditation, deposit, check, transfer, money order and in general of any other mechanism for the extinction of obligations when these operations are carried out abroad and its rate is 5%.

There are Legal Resolutions issued by the regulatory body that channel certain benefits to producing and exporting companies.

Income from foreign source

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

Payments abroad

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

Tax reforms year 2018

During the year 2018, tax reforms were issued to encourage and attract foreign and domestic investments, aimed at granting tax incentives and contributing to legal certainty. These reforms will be effective as of 2019.

These reforms were made through laws and regulations. Among the main ones we have:

- Organic Law for Reactivation of the Economy, Strengthening Dollarization and Modernization of Financial Management;
- Organic Law for Productive Development, Attraction of Investments, Generation of Employment and Stability and Fiscal Equilibrium;
- Regulation for the application of the Organic Law for the Reactivation of the Economy, Strengthening Dollarization and Modernization of Financial Management;
- Regulation for the application of the Organic Law for Productive Development, Attraction of Investments, Employment Generation and Stability and Fiscal Equilibrium.

The main benefits of these laws and regulations are:

Among the benefits, the reduction of the rate of this tax that will have the micro, small and medium enterprises and exporters is also noted; as well as the exemp-

tion of this payment, for new investments. In addition to this there is greater possibility that companies will have to deduct their advertising expenses and the incorporation of new products that will stop paying 12% of the Value Added Tax (VAT).

Tax reforms year 2019

The main reform during 2019 is the "Organic Law of Tax Simplification and Progressivity" issued on 30 December 2019, the main changes being the following:

1. Elimination of the Income Tax Advance that was made during the year to be taxed.
2. Value Added Tax (VAT) of 12% is levied on digital services that were not applying this tax in previous years.
3. A Tax Regime for Micro-enterprises is established applicable to taxes on income, added value and special consumption.
4. The Single and Temporary Contribution is established. This contribution establishes that those companies that carry out economic activities, and that have generated taxable income equal to or greater than USD 1,000,000.00 in fiscal year 2018, will pay a single contribution and temporary, for fiscal years 2020, 2021 and 2022, on said income.

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
 - Creation of a tax regime for micro-businesses.
 - 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 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.
- Deductible expenses-income greater than USD 100,000.
- 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, tracking and fiscal traceability of goods.
- Reforms regarding the tax on foreign exchange.

Contribution of companies with income greater than USD 1.000.000 in 2018.

- 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
- Organic Law of Humanitarian Support to combat the crisis derived from Covid-19: Tax reforms included in the law (issued in June 2020):

For the purposes of Income Tax for Natural Persons:

- Deductible Personal Expenses includes crafts made by qualified artisans.
 - Deductible personal expenses for internal tourism without these expenses as a whole, may exceed 50% of the total income earned by the taxpayer.
 - Deductions from the interests earned by national financial entities granted from April to December 2020 for ordinary commercial, productive or microcredit loans greater than USD 25,000 for a minimum term of 48 months, 50% of the interest value may be deducted received for the payment of these loans until the end of the operation, as long as they comply with the conditions of grace periods, payment terms and interest rates provided for in the Organic Law of Humanitarian Support to combat the crisis derived from Covid-19.
 - Exempt income: 50% of the interest earned, national financial entities that increase their loan terms in 2020 for amounts greater than USD 10,000. They will be exempt from income.
- Double taxation agreements: withholding agents who do not have the beneficiary's tax residence certificate, at the time of the withholding can automatically apply the agreements to avoid double taxation for 18 months from March 2020.
 - Advance payment of income tax: Individuals and companies that: are required to pay the advance payment of income tax, charged to fiscal year 2020.

3. Other taxes

Other taxes and contributions such as social security are deductible for income tax purposes, except for fines and interest.

- Value Added Tax. In the transfer of goods, import of goods and services and the provision of services. VAT paid on purchases is tax credit compensable with sales VAT. Rate 12%
- Tax on Special Consumption. About cars, planes, helicopters and boats, as well as cigarettes, alcoholic beverages and non-alcoholic beverages. Rate from 5% to 100%
- Municipal Tax on Total Assets. On all the assets minus current and contingent liabilities. Rate of 0.15%.

- Municipal Patent Tax. Up to USD 25,000 per year.
- Property tax. About the value of the appraisal of the property. Rate from 0.00025 to 0.005%.
- Foreign Currency Exit Tax (ISD) on all payments made abroad for more than USD 1,000 except dividends. Rate 5%.
- Single income tax for activities in the banana sector. It implies the payment of a fee of up to 2% on the gross income obtained from the 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%. In addition, a 25% withholding applies to payments abroad to non-residents.

Value Added Tax

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 value added tax (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

For purposes of the determination and settlement of income tax, dividends and profits, calculated after the payment of income tax, distributed by national or foreign companies resident in Ecuador, in favor of other national or foreign companies, are exempt. not domiciled in tax havens or jurisdictions of lesser taxation or of natural persons not residing in Ecuador.

Nationals pay

Agreements to Avoid Double Taxation

Ecuador applies Decision 578 of the Andean Nation Community, which avoids and alleviates double taxation between member countries. In addition, Ecuador maintains Double Taxation Agreements with the following countries:

- Germany (Official Register No. 493 of August 5, 1986);
- Belgium (Official Register No. 312 of April 13, 2004);
- Brazil (Official Register No. 865 of February 2, 1988);
- Canada (Official Register No. 484 of December 31, 2001);

- Chile (Official Register No. 189 of December 14, 2003);
- Spain (Official Register No. 253 of August 13, 1993);
- France (Official Register No. 34 of September 25, 1992);
- Italy (Official Register No. 407 of March 30, 1990);
- Mexico (Ratification of the Convention in Official Gazette No. 201 of November 10, 2000 and the publication of the text in Official Gazette No. 281 of March 9, 2001);
- Romania (Official Gazette No. 785 of September 20, 1995);
- Switzerland (Original text in Official Gazette No. 788 of September 25, 1995 and Protocol in Official Gazette No. 178 of October 5, 2000);
- Agreement between the Government of the Republic of Ecuador and the Government of the Argentine Republic to avoid Double Taxation in relation to air transport;
- Agreement between Ecuador and Uruguay to avoid Double Taxation (Supplement to Official Register No. 885 of February 4, 2013);
- United Arab Emirates, September 2012;
- South Korea, August 25, 2011;
- Agreement to avoid double taxation and tax evasion between Ecuador and China (Third Supplement to Official Gazette No. 147, of December 19, 2013);
- Decision 578 of the Andean Nation Community indicates that the income of any nature that is obtained, will only be taxed in the member country in which such income has its source of production.

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:

- i) File a tax that is greater than 3% of the taxable income are exempt from the Transfer Pricing Regime;
- ii) Do not carry out operations with tax havens or preferential tax regimes; and
- iii) 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.

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.

4. Taxes to natural people

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 juris

dition, 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

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.

Income Tax Rates for Natural Persons for the Year 2020

Basic Fraction	Excess up to	Basic Tax Fraction	Excess Tax Fraction (%)
0	11,315	0	0
11,315	14,416	0	5
14,416	18,018	155	10
18,018	21,639	515	12
21,639	43,268	950	15
43,268	64,887	4,194	20
64,887	86,516	8,518	25
86,516	115,338	13,925	30
115,338	And up	22,572	35

Special deductions

As of 2020, personal expenses may be deducted for individuals with net income of less than USD 100,000. (Net income is obtained from the difference between the total taxable income minus the total deductible expenses and discounts for the elderly or disabled).

The total deduction for personal expenses may not exceed 50% of the total of the Taxpayer's taxable income and in no case will it be greater than the equivalent of 1.3 times the basic fraction deducted from Income Tax of natural persons

USD 14,710, except from these limits the health expenses of people with catastrophic, rare or orphan illnesses who are duly found certified or endorsed by the competent national health authority, since they will be recognized for their deductibility up to a value equivalent to 2 basic fractions deducted from Income Tax of natural persons.

The following are deductible:

- Personal contributions to Social Security corresponding to 9.45% of your salary;
 - Housing expenses;
 - Family health expenses;
 - Education / Art and Culture;
 - National tourism
 - Food;
 - Clothing;
 - Lease of real estate of natural persons
 - Interest paid for construction, improvement or conservation of property
- Property insurance premiums
 - Annual depreciation on the municipal appraisal of properties, maintenance expenses, repairs, extraordinary events with prior authorization of the Internal Revenue Service (SRI)
 - Property taxes, public service fees such as: cleaning, sewerage, potable water, electric power.

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

5. Tax on heritage

5.1 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.

5.2 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 levies the transfer of ownership or the transfer of assets and rights that the deceased had owned or possessed abroad or in favor of residents in Ecuador.

Tax Table on Inheritances, Legacies and Donations

Year 2020 - In dollars			
Basic Fraction	Excess up to	Basic Tax Fraction	Excess Tax Fraction
0	72,090	0	0%
72,090	144,180	0	5%
144,180	288,361	3.605	10%
288,361	432,571	18.023	15%
432,571	576,772	39.654	20%
576,772	720,952	68,494	25%
720,952	865,113	104,539	30%
865,113	And up	147,787	35%

5.3 Patrimonial declaration

Individuals residing in Ecuador, whose assets on the first of January of each year exceed USD 226,000 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 452,400. 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

6. Tax regime for Microenterprises

6.1 Microenterprises

The Tax Regime for Micro-enterprises is a mandatory regime, applicable to taxes on income, added value and special consumption for micro-enterprises, including entrepreneurs who meet the condition of micro-enterprises as established in the Organic Code of Production, Commerce and Investments and the corresponding Regulation, provided that they are not within the limitations provided in the standard.

For the categorization of micro-enterprises, those taxpayers with incomes of up to USD 300,000 and who have up to 9 workers on the date of publication of the cadastre will be considered. For such categorization, the amount of income will prevail over the condition of number of workers.

Subject to this regime, taxpayers considered micro-enterprises, including entrepreneurs who meet the condition of micro-enterprises, will be subject to this regime.

6.2 Formal Duties

This regime allows microentrepreneurs to meet their tax obligations in an agile and simplified way, such as:

- Sales receipts: They will be obliged to deliver invoices in accordance with the applicable tax regulations and will request sales receipts for their acquisitions of goods, contracting services.
- Accounting: They will be required to keep accounting.
- Presentation of declarations: they must present declarations of income tax, value added tax (VAT) and special consumption (ICE).

6.3 Income tax

Taxpayers will determine the income tax applying the rate of 2% on the gross income of the respective fiscal year exclusively with respect to those income from business activity.

6.4 Value Added Tax (VAT) and special consumption (ICE)

Taxpayers subject to this regime will present the returns and make the corresponding payment of value added taxes (VAT) and special consumption (ICE) on a semi-annual basis.

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