Ecuador’s President sent a tax reform proposal to the National Assembly on 30 March 2016, for discussion and approval. The proposal would make the following changes:

- Increase the special consumption tax for goods, such as cigarettes, alcoholic beverages and soft drinks
- Reduce the exempt amount that Ecuadorians can carry abroad for currency exportation tax (CET) purposes

**Ecuadorian tax law reforms**

**Background**

Ecuador is currently facing a considerable reduction in fiscal cash resources due to low oil prices and the dollar’s depreciation; the President is taking action to mitigate this situation.

The President’s proposal would create incentives to encourage the use of credit cards, debit cards and electronic money, instruments that are of vital importance to maintain the current monetary regime of Ecuador. Additionally, the use of these payment methods would considerably reduce the risks inherent in the use of cash, such as insecurity and crime. The proposal also would reinstate the value added tax (VAT) on transactions completed with these payment methods.
Special consumption tax

Based on the Ecuadorian Government’s objective to protect the health of its citizens, the Ecuadorian tax regime allows the creation of laws to reduce the consumption of certain goods that are considered harmful to health. As a result, the proposal would discourage the excessive consumption of certain products that can seriously affect health, such as cigarettes, alcoholic beverages (including beer) and sweetened drinks (like soda) by increasing the special consumption tax on those goods.

Currency exportation tax (CET)

The CET proposal is intended to discourage money laundering and the transfer of large amounts of cash abroad. Under the proposal, Ecuadorians would be permitted to carry abroad US$1,098 (three unified basic salaries), that would be exempt for CET purposes. Any additional amount of cash would be taxed.

Taxpayers who leave the country carrying cash and do not make the proper CET return and payment within the time limits stated in the Law would be punished with a fine equivalent to 50% of the unreported amount.

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