Tax Agenda Ecuador

September 2024

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No.	Fact	Action
1	**Remittance tax (ISD)** ISD is imposed on the transfer of money abroad in any form. Dividends are exempt from ISD under certain considerations. As of 01 April 2024, the ISD tax rate is 5%; although it could be reduced subject to a Presidential Decree and approval from the Ministry of Finance.	Taxpayers should consider the current remittance tax rate for future projections.
2	**Income tax limit to deductibility between related parties** Technical services, administrative services, royalties and similar payments between related parties are subject to a limit on the income tax deductibility. The limit considers, among other certain conditions, a 5% of the taxable income triggered within the Fiscal Year (FY). Indirect expenses allocated from foreign related parties will be deductible up to 5% of Income tax base plus such expenses. In the case of companies that are in the pre-operational business cycle, this percentage will correspond to 5% of total assets.	A tax ruling process before the Ecuadorian Tax Authority can be initiated similar to an Advance Transfer Pricing Agreements (APA) process. To obtain a higher deductibility percentage, except for indirect expenses.

Sep | Oct | Nov | Dec

Compliance | *Risk management* | *Cash-flow and ETR impact*

Use text boxes above the timeline to plan your actions for coming months

No.	Fact	Action
3	**Passive income and treaty application** In accordance with Ecuadorian regulations, in case of passive income cross-border transactions, executed with residents in tax treaty jurisdictions, the Beneficial Owner of such income must be the jurisdiction applying a Double Tax Treaty (DTT).	Analysis on how the transactions are executed with an appropriate structuring on cross border payments following substance over form principles under Ecuadorian tax rules and OECD guidelines.
4	**Investment Agreements** Based on latest tax reforms in Ecuador, Investment agreements are the sole and main available option for a foreign investor to have tax reductions. Despite that latest changes in regulations reduced tax benefits, these type of agreements provide tax stability to strengthen the foreign investment. Read more: Ecuador enacts new regulations on Income Tax, including lower income tax rates for new investments | EY – Global.	Taxpayers should analyze its activities, from a tax and legal feasibility perspective, to verify that a project or activity in Ecuador may qualify to benefit from a reduced corporate income tax rate.
5	**Self assessment of Value Added Tax (VAT) on importation of services (if any)** For the import of services, taxpayers must issue the corresponding Sales and Purchase receipt in order to self-assess the 12% VAT and make the withholding of the VAT triggered. Note that the 12% rate was applicable until 31 March 2024. From 01 April 2024, the rate permanently changed to 13%. However, by Presidential Decree, the rate was temporarily increased to 15%, which will be maintained until 31 December 2024.	Taxpayers should comply with the self assessment of VAT on importation of services, to use the VAT as input VAT.
6	**Self-withholding for big taxpayers** “Big taxpayers” are individuals “and” or “or” companies that together account for at least 50% of tax revenues. In addition, they have the highest volume and relevance of transactions. Companies in this category must withhold income tax monthly on their total taxable income. The withholding rate for each big taxpayer is defined by the Ecuadorian Internal Revenue Services, which is stated considering their monthly income and usual economic activity. Currently, the withhold rate is between 0,79% and 10%. The withholding will be a tax credit for annual income tax.	Identify who is categorized as “big taxpayer”, and that they should consider the new self-withholding regime, considering it is applied on their total taxable income, with the exemptions and that the rates may be changed or determined considering their income and usual economic activity.

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EYG no. 007469-24Gbl
ED None

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