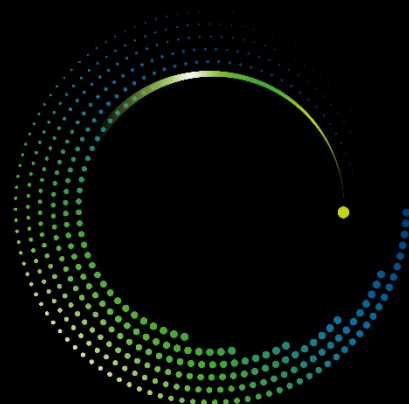


## International Tax Ecuador Highlights 2023

Updated August 2023



### Recent developments

For the latest tax developments relating to Ecuador, see [Deloitte tax@hand](#).

### Investment basics

**Currency:** US Dollar (USD)

**Foreign exchange control:** There are no foreign exchange controls.

**Accounting principles/financial statements:** Companies must follow International Financial Reporting Standards. Financial statements must be filed annually.

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

### Corporate taxation

#### Rates

<b>Corporate income tax rate</b>	25% (in general)
<b>Branch tax rate</b>	25% (in general)
<b>Capital gains tax rate</b> (applicable to transfers of interests in Ecuadorian entities)	10%

**Residence:** A company is resident in Ecuador if it is incorporated in Ecuador.

**Basis:** Resident entities are taxed on worldwide income. Nonresidents are subject to tax only on Ecuadorian-source income. Branches are taxed in the same way as subsidiaries.

**Taxable income:** Taxable income comprises gross income derived from business activities. Expenses incurred in deriving taxable income may be deducted, provided they are supported by documentation.

Foreign income taxed in another jurisdiction also is subject to tax in Ecuador; however, the taxes paid abroad may be taken as a tax credit for Ecuadorian tax purposes.

**Rate:** The standard corporate income tax rate is 25%, and a 22% rate applies to micro and small enterprises and certain exporters (i.e., “habitual exporters,” as defined). An increased rate of 28% applies where:

- The company has at least one direct or indirect shareholder resident in a tax haven or low-tax jurisdiction and the company has a beneficial owner that is an Ecuadorian resident individual; or
- The company has not duly disclosed the complete chain of its shareholders up to the ultimate beneficial owner to the tax authorities.

The higher rate of 28% applies proportionally where the “participation level” (i.e., the participation percentage of direct or indirect shareholders resident in a tax haven or low-tax jurisdiction and Ecuadorian resident individual beneficial owners, or of shareholders not disclosed in the chain of ownership) is less than 50% and in full where the participation level is 50% or more.

The corporate income tax rate may be reduced to 15% for companies that reinvest their profits in Ecuador in sports/cultural projects or programs for responsible scientific research or technological development.

There is also a corporate income tax rate reduction of three or five percentage points available for a specified period for companies that make new investments and for companies that sign an investment contract with the Ecuadorian government and make new investments, respectively. To be eligible for the rate reduction, some additional requirements must be met.

**Surtax:** There is no surtax.

**Alternative minimum tax:** The advance income tax that previously operated as a minimum tax is no longer mandatory.

**Taxation of dividends:** Dividends paid by a resident company to another resident company out of profits that previously have been subject to corporate income tax are exempt from income tax.

**Capital gains:** Capital gains are treated as ordinary income and generally are taxed at the applicable corporate income tax rate. However, capital gains from the direct or indirect transfer of shares, titles, or other rights with respect to an interest in an Ecuadorian entity are taxed at a 10% flat rate. Where the seller is a nonresident, the Ecuadorian target entity must act as a “substitute agent” responsible for collecting and paying the tax.

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

**Foreign tax relief:** Income that is subject to tax abroad also is taxable in Ecuador, and the tax paid abroad may be taken as a tax credit.

**Participation exemption:** See “Taxation of dividends,” above.

**Holding company regime:** There is no holding company regime.

**Incentives:** Under the standard incentive rules, enterprises set up in special development zones (ZEDES) are granted a reduction of 10 percentage points in the corporate income tax rate. ZEDES incorporated during or after the 2019 fiscal year are tax-exempt for 10 years (effective from the first year in which they derive operating income), and then are granted the corporate income tax rate reduction of 10 percentage points. ZEDES incorporated prior to the 2019 fiscal year may be eligible for a tax exemption for any portion of the 10-year period (effective from the first year in which they derived operating income) that still is remaining as of the 2019 fiscal year, and then are granted the corporate income tax rate reduction of 10 percentage points.

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

Entities that sign investment contracts with the government are eligible for exemptions from the special tax on remittances abroad and foreign trade taxes for the acquisition of goods necessary for the project’s development.

## Compliance for corporations

**Tax year:** The tax year is the calendar year.

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

**Filing and payment:** Companies are no longer required to make advance payments of corporate income tax. The final return must be filed between 9 April and 28 April of the year following the tax year, depending on the type of taxpayer.

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

**Rulings:** The tax authorities may respond to taxpayers’ questions, but the response is binding only on the taxpayer.

## Individual taxation

Rates		
Individual income tax rate	Taxable income (USD)	Tax (amounts in USD)
	Up to 11,722	0%
	Over 11,722 and up to 14,930	5% of amount over 11,722
	Over 14,930 and up to 19,385	160 plus 10% of amount over 14,930
	Over 19,385 and up to 25,638	606 plus 12% of amount over 19,385
	Over 25,638 and up to 33,738	1,356 plus 15% of amount over 25,638
	Over 33,738 and up to 44,721	2,571 plus 20% of amount over 33,738
	Over 44,721 and up to 59,537	4,768 plus 25% of amount over 44,721
	Over 59,537 and up to 79,388	8,472 plus 30% of amount over 59,537
	Over 79,388 and up to 105,580	14,427 plus 35% of amount over 79,388
	Over 105,580	23,594 plus 37% of amount over 105,580
<b>Capital gains tax rate</b> (applicable to transfers of interests in Ecuadorian entities)		10%

**Residence:** Individuals are deemed to be a resident if they are present in Ecuador for more than six months in a year or other 12-month period, if their principal activities or economic interests are in Ecuador, or if their close relatives are in Ecuador. A change in tax residence will not become effective for five years if individuals move from Ecuador to a tax haven or low-tax jurisdiction, unless the individuals can demonstrate that they were physically present in the new jurisdiction for at least 183 days during the tax year.

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

**Taxable income:** Taxable income includes income from employment, income from a profession or business, capital gains, and investment income, such as dividends. Expenses related to the income may be deducted.

**Rates:** Rates are progressive from 0% to 37%.

**Capital gains:** Capital gains are treated as ordinary income and generally are taxed at the progressive personal income tax rates. Capital gains from the direct or indirect transfer of shares, titles, or other rights with respect to an interest in an Ecuadorian entity are taxed at a 10% flat rate.

**Deductions and allowances:** Income tax reductions are permitted that are calculated using a component with a maximum amount of USD 964 to USD 2,753 (for 2023), based on the number of the taxpayer's dependents. The reduction calculated on this basis is claimed through an allowance for personal expenses (housing, education, food, health, clothing, art, and culture) that may apply for the reduction to offset the taxpayer's income tax liability, up to a maximum amount of USD 5,352 to USD 15,294 (for 2023).

**Foreign tax relief:** Income that is subject to tax abroad also is taxable in Ecuador, and the tax paid abroad may be taken as a tax credit.

## Compliance for individuals

**Tax year:** The tax year is the calendar year.

**Filing status:** Married couples or common law spouses living in a common law union must file separate income tax returns. Any "joint basis" income must be divided equally between the spouses.

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

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

Individuals, as well as professionals, commission agents, craft workers, agents, representatives, and other self-employed workers, are required to maintain accounting records when the gross income of the immediately preceding fiscal year (i.e., 2022) exceeds USD 300,000.

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

**Rulings:** The tax authorities may respond to taxpayers' questions, but the response is binding only on the taxpayer.

**Other:** Individuals whose total assets exceed 20 times the basic income tax-free allowance (USD 234,440 for 2023) must file information on their net worth in May of each year, stating the beginning balances at 1 January of the relevant year. Married couples or common law spouses living in a common law union generally must file a combined net worth return if their joint assets exceed 40 times the basic income tax-free allowance (USD 468,880 for 2023). However, if either of the spouses/partners holds assets outside of the conjugal community or common law union, returns must be filed separately and must include the individual assets and liabilities, as well as the assets and liabilities that form part of the conjugal community or common law union.

## Withholding tax

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
<b>Dividends</b>	0%	Based on progressive tax brackets, at rates up to 10%	10% (in general)	10% (in general)
<b>Interest</b>	0%	0%	0%/25%	0%/25%
<b>Royalties</b>	2.75%	2.75%	25%/37%	25%/37%
<b>Fees for technical services</b>	2.75%	8%/10%	25%/37%	25%/37%

**Dividends:** The taxable base of dividends distributed by resident companies is equal to 40% of the dividends distributed, and the withholding tax rate varies depending on the beneficial owner. Dividends paid to nonresidents generally are subject to withholding tax at a 25% rate applied to 40% of the dividends, resulting in an effective tax rate of 10% on the gross payment. Dividends paid to a recipient that is a nonresident company with a beneficial owner that is an Ecuadorian resident individual generally are subject to an effective withholding tax rate of 2% to 10%, based on progressive tax brackets, as are dividends paid directly to Ecuadorian resident individuals. Dividends paid to a nonresident in cases where the payer company has not duly disclosed the complete chain of its shareholders up to the ultimate beneficial owner to the tax authorities are subject to an effective tax rate of 14.8% (a 37% rate applied to 40% of the dividends). The rate on payments to nonresidents may be reduced under an applicable tax treaty.

Dividends paid to a resident company are not subject to withholding tax.

**Interest:** Interest paid on loans obtained from nonresident financial institutions, specialized non-financial entities qualified by the Ecuadorian control authorities, and multilateral organizations is not subject to withholding tax, unless the interest rate exceeds the maximum rate set by the central bank. Any excess interest must be subject to withholding tax at a 25% rate (unless the rate is reduced under an applicable tax treaty), or it will not be deductible for the Ecuadorian payer company.

All interest payments made abroad, other than those mentioned above, are subject to withholding tax at the 25% rate (unless the rate is reduced under an applicable tax treaty), and any excess interest exceeding the maximum rate set by the central bank will be considered nondeductible by the Ecuadorian payer company.

Interest paid to a resident generally is not subject to withholding tax.

**Royalties:** Royalties paid to a nonresident generally are subject to a 25% withholding tax, unless the rate is reduced under an applicable tax treaty. The rate increases to 37% when royalties are paid to a recipient in a tax haven or low-tax jurisdiction. Domestic payments for royalties (other than royalties considered to be provided in connection with a franchise agreement) are subject to a 2.75% withholding tax rate.

**Fees for technical services:** Technical service fees paid to a nonresident generally are subject to a 25% withholding tax, unless the rate is reduced under an applicable tax treaty. The rate increases to 37% where fees are paid to a recipient in a tax haven or low-tax jurisdiction.

Payments for technical services made to a resident individual generally are subject to an 8% withholding tax; if the services are related to a degree held by the individual, a 10% withholding tax applies. Payments for technical services made to a resident company are subject to a 2.75% withholding tax.

**Branch remittance tax:** There is no specific branch remittance tax; however, see “Other,” below, for the special remittance tax that generally applies to payments abroad.

**Other:** Payments abroad generally are subject to a special remittance tax (ISD). The rate is 3.75% as of June 2023 and is expected to be reduced to 2% by December 2023. The tax is withheld by the financial institution transferring the funds, and is then declared to the tax authorities. The tax is deductible for the company making the payment abroad. Payments made from abroad, whether for goods or services, also are subject to the ISD.

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

Dividends may be exempt from the ISD if a prior application is made to the tax authorities, as long as the company paying the dividends does not have an ultimate beneficial owner that is an Ecuadorian resident.

## Anti-avoidance rules

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

**Interest deduction limitations:** Interest payments on foreign loans granted to banks, insurance companies, and certain other entities in the financial sector are deductible only if the foreign debt does not exceed 300% of the entity’s equity. Any excess must be considered a nondeductible expense.

For other types of businesses, the limitation on the deductibility of interest payments on loans granted by resident and nonresident related parties is 20% of the business’s profit before employee profit-sharing, plus interest, corporate income tax, depreciation, and amortization.

**Controlled foreign companies:** There are no controlled foreign company rules.

**Hybrids:** There are no specific anti-hybrid rules.

**Economic substance requirements:** If a transaction does not have economic substance, this could result in tax consequences, e.g., an expense being considered nondeductible for corporate income tax purposes. Substance may be proved with contracts, invoices, journal entries, emails, and any other information that supports the transaction carried out.

**Disclosure requirements:** Specific disclosure requirements may apply in certain situations (e.g., companies are required to disclose the complete chain of their shareholders up to the ultimate beneficial owner (see “Rate” under “Corporate taxation,” above) and certain individuals are required to report information on their net worth (see “Other” under “Compliance for individuals,” above)).

**Exit tax:** There is no specific exit tax.

**General anti-avoidance rule:** Ecuador has a general anti-avoidance rule.

## Value added tax

Rates	
Standard rate	12%
Reduced rate	0%

**Taxable transactions:** VAT is imposed on the supply of goods and the provision of services and on services received from overseas, such as rights and royalties.

**Rates:** The VAT rate is 12%. Certain transactions are exempt or zero rated. For certain holidays, the rate is reduced to 8% for tourism activities.

**Registration:** There is no specific VAT registration requirement, but there is a general obligation for companies and individuals carrying out business activities in Ecuador to register with the tax authorities.

**Filing and payment:** VAT returns must be filed on a monthly basis, except for micro taxpayers, which file on a semi-annual basis.

## Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

**Social security contributions:** Employers pay social security tax at a rate of 11.15% on an employee's total salary.

Resident employees are required to make monthly social security contributions of 9.45% of their monthly salary.

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

**Capital duty:** There is no capital duty.

**Real property tax:** Urban property tax is imposed annually by municipalities on the owner of property, at progressive rates ranging from 0.025% to 1%.

**Transfer tax:** Transfer tax is imposed by municipalities on the transfer of immovable property, the creation of trusts, and certain gifts.

**Stamp duty:** There is no stamp duty.

**Net wealth/worth tax:** A temporary tax is applicable for fiscal years 2022 and 2023 for entities whose net worth exceeded USD 5 million as of December 2020. The applicable rate is 0.8% and the tax is due in March of the same fiscal year.

**Inheritance/estate tax:** For individuals, inheritance tax is imposed at progressive rates up to 35% on donations, inheritances, and legacies. A tax-free allowance (USD 72,402 for 2023) is available.

**Tax treaties:** Ecuador has concluded more than 20 tax treaties. For information on Ecuador's tax treaty network, visit [Deloitte International Tax Source](#).

**Tax authorities:** Internal Revenue Service (IRS)

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