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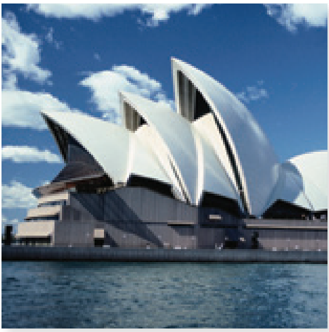

Ecuador Tax Guide

2013

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions. This handy reference guide provides clients and professional practitioners with comprehensive tax and business information for over 90 countries throughout the world.

As you will appreciate, the production of the WWTG is a huge team effort and I would like to thank all tax experts within PFK member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

I hope that the combination of the WWTG and assistance from your local PKF member firm will provide you with the advice you need to make the right decisions for your international business.

Richard Sackin
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PREFACE

The PKF Worldwide Tax Guide 2013 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 1 January 2013, while also noting imminent changes where necessary.

On a country-by-country basis, each summary addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

In addition to the printed version of the WWTG, individual country taxation guides are available in PDF format which can be downloaded from the PKF website at www.pkf.com

PKF INTERNATIONAL LIMITED
MAY 2013

ABOUT PKF INTERNATIONAL LIMITED

PKF International Limited (PKFI) administers the PKF network of legally independent member firms. There are around 300 member firms and correspondents in 440 locations in around 125 countries providing accounting and business advisory services. PKFI member firms employ around 2,270 partners and more than 22,000 staff. PKFI is the 11th largest global accountancy network and its member firms have $2.68 billion aggregate fee income (year end June 2012). The network is a member of the Forum of Firms, an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide.

Services provided by member firms include:

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Insolvency – Corporate & Personal
Financial Planning/Wealth management
Taxation
Corporate Finance
Forensic Accounting
Management Consultancy
Hotel Consultancy
IT Consultancy

PKF member firms are organised into five geographical regions covering Africa; Latin America; Asia Pacific; Europe, the Middle East & India (EMEI); and North America & the Caribbean. Each region elects representatives to the board of PKF International Limited which administers the network. While the member firms remain separate and independent, international tax, corporate finance, professional standards, audit, hotel consultancy and business development committees work together to improve quality standards, develop initiatives and share knowledge and best practice cross the network.

Please visit www.pkf.com for more information.

STRUCTURE OF COUNTRY DESCRIPTIONS

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SALES TAX/VALUE ADDED TAX
FRINGE BENEFITS TAX
LOCAL TAXES
OTHER TAXES

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STOCK/INVENTORY
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INTEREST DEDUCTIONS
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FOREIGN SOURCED INCOME
INCENTIVES

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G. EXCHANGE CONTROL

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INTERNATIONAL TIME ZONES

AT 12 NOON, GREENWICH MEAN TIME, THE STANDARD TIME ELSEWHERE IS:

A

Algeria . . . . 1 pm
Angola . . . . 1 pm
Argentina . . . . 9 am
Australia -
  Melbourne . . . . 10 pm
  Sydney . . . . 10 pm
  Adelaide . . . . 9.30 pm
  Perth . . . . 8 pm
Austria . . . . 1 pm

B

Bahamas . . . . 7 am
Bahrain . . . . 3 pm
Belgium . . . . 1 pm
Belize . . . . 6 am
Bermuda . . . . 8 am
Brazil . . . . 7 am
British Virgin Islands . . . . 8 am

C

Canada -
  Toronto . . . . 7 am
  Winnipeg . . . . 6 am
  Calgary . . . . 5 am
  Vancouver . . . . 4 am
Cayman Islands . . . . 7 am
Chile . . . . 8 am
China - Beijing . . . . 10 pm
Colombia . . . . 7 am
Cyprus . . . . 2 pm
Czech Republic . . . . 1 pm

D

Denmark . . . . 1 pm
Dominican Republic . . . . 7 am

E

Ecuador . . . . 7 am
Egypt . . . . 2 pm
El Salvador . . . . 6 am
Estonia . . . . 2 pm

F

Fiji . . . . 12 midnight
Finland . . . . 2 pm
France . . . . 1 pm

G

Gambia (The) . . . . 12 noon
Germany . . . . 1 pm
Ghana . . . . 12 noon
Greece . . . . 2 pm
Grenada . . . . 8 am
Guatemala . . . . 6 am
Guernsey . . . . 12 noon
Guyana . . . . 7 am

H

Hong Kong . . . . 8 pm
Hungary . . . . 1 pm

I

India . . . . 5.30 pm
Indonesia . . . . 7 pm
Ireland . . . . 12 noon
Isle of Man . . . . 12 noon
Israel . . . . 2 pm
Italy . . . . 1 pm

J

Jamaica . . . . 7 am
Japan . . . . 9 pm
Jordan . . . . 2 pm

K

Kenya . . . . 3 pm

L

Latvia . . . . 2 pm
Lebanon . . . . 2 pm
Luxembourg . . . . 1 pm

M

Malaysia . . . . 8 pm
Malta . . . . 1 pm
Mexico . . . . 6 am
Morocco . . . . 12 noon

N

Namibia . . . . 2 pm
Netherlands (The) . . . . 1 pm
New Zealand . . . . 12 midnight
Nigeria . . . . 1 pm
Norway . . . . 1 pm

O

Oman . . . . 4 pm

P

Panama . . . . 7 am
Papua New Guinea . . . . 10 pm
Peru . . . . 7 am
Philippines . . . . 8 pm
Poland . . . . 1 pm
Portugal . . . . 1 pm

Q

Qatar . . . . 8 am

R

Romania . . . . 2 pm

Russia -
- Moscow . . . . .3 pm
- St Petersburg. . . . . .3 pm

S

Singapore . . . . .7 pm
Slovak Republic . . . . .1 pm
Slovenia . . . . .1 pm
South Africa. . . . . .2 pm
Spain . . . . .1 pm
Sweden. . . . . .1 pm
Switzerland . . . . .1 pm

T

Taiwan .8 pm
Thailand . . . . .8 pm
Tunisia . . . . 12 noon
Turkey. .2 pm
Turks and Caicos Islands . . . . . . .7 am

U

Uganda .3 pm
Ukraine .2 pm
United Arab Emirates . . . . .4 pm
United Kingdom . . . .(GMT) 12 noon
United States of America -
- New York City. . . . . .7 am
- Washington, D.C. . . . . .7 am
- Chicago. . . . . .6 am
- Houston. . . . . .6 am
- Denver . . . . .5 am
- Los Angeles. . . . . .4 am
- San Francisco . . . . .4 am

Uruguay . . . . .9 am

V

Venezuela . . . . .8 am

Z

Zimbabwe . . . . .2 pm

ECUADOR

Currency: Dollar ($)

Dial Code To: 593

Dial Code Out: 00

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A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

COMPANY TAX

Company tax is payable by Ecuadorian resident companies on non-exempt income derived from all sources. Non-resident companies are required to pay tax on income sourced in Ecuador.

Resident companies are those that are incorporated in Ecuador, or carry on business in Ecuador and have either central management and control in Ecuador or voting power controlled by shareholders who are Ecuadorian residents.

The company tax rate for year 2013 is 22%. Capitalised profits have a 15% tax rate. The tax year runs from 1 January to 31 December. Tax is payable from 2–28 April, depending on the tax identification number. Taxpayers are required to pay tax advances which will be equal to 50% of the previous year's income tax, less tax withholdings for that period. This tax advance is made in two payments, according to the following chart.

9th RUC digit	Expiry date (1st portion)	Expiry date (2nd portion)
1	July 10th	September 10th
2	July 12th	September 12th
3	July 14th	September 14th
4	July 16th	September 16th
5	July 18th	September 18th
6	July 20th	September 20th
7	July 22nd	September 22nd
8	July 24th	September 24th
9	July 26th	September 26th
0	July 28th	September 28th

These tax advances constitute tax credit for income tax purposes. Exonerations and reductions for the payment of tax advances apply when there is evidence of (1) losses, (2) decrease in current year's operating activities in relation with prior years, or (3) withholdings are greater than income tax liability for current year.

The tax rate tables for the year 2013 are:

Taxable income (US$)	Fixed tax on lower limit (US$)	Marginal Rate on excess %
Up to 10,180	–	0%
10,180 to 12,970	0	5%
12,970 to 16,220	140	10%
16,220 to 19,470	465	12%
19,470 to 38,930	855	15%
38,930 to 58,390	3,774	20%
58,390 to 77,870	7,666	25%
77,870 to 103,810	12,536	30%
Over 103,810	20,318	35%

All payments or register of purchase of merchandise and service are subject to withholding tax at the following rates:

- 1% - electricity, private/public transport of passengers and private freight
- 1% - purchase of all type of goods (except oil products)
- 1% - all construction activities
- 1% - over the 10% of the premium billed
- 1% - over the quotes and option purchasing in leasing
- 1% - those carried out by media services and advertising agency
- 1% - interest and commissions caused in the operations of credit between institutions of the financial system. The financial institution that paid or charge financial returns will act as withholding agent
- 2% - those realised by individuals for services in which workforce is over the intellectual work
- 2% - payments by credit card issuers to their merchants
- 2% - income generated from loans and investments
- 2% - those interests that any public entity recognized on behalf of tax payers
- 2% - Any other payments
- 8% - Fees, commissions and other payments to professionals or other persons who are present in Ecuador for more than six months for services that are predominantly intellectual or for sport or artistic services, always when such service is not related to the professional title of the person who provides the service; royalties paid to resident individuals or Ecuadorian branches of non-residents; payments for letting of immovable property.
- 10% - Fees, commissions and other payments to professionals or other persons who are present in Ecuador for more than six months for services that are predominantly intellectual, always when those services are related to their professional title. Payments and credits not included in withholding rates. Amounts paid to non-resident individuals for services rendered from time to time in Ecuador and that constitute taxable income, and other payments different to earnings or dividends that are sent, paid or credited to the abroad. (Fees for professional activities).
- 22% for year 2013 - Payments to non-resident foreign individuals for subject-to-tax services occasionally performed in Ecuador and other payments other than dividends or profit distributions.

The amounts paid become credits available for income tax purposes at the end of the period.

Interests paid to financial institutions are not subject to withholding tax. Employment income is subject to a specific withholding regime.

CAPITAL GAINS TAX

In general, capital gains are taxed as ordinary income.

BRANCH PROFITS TAX

There is no specific income tax for branches. Income made by branches is taxed according to general income tax rules. A very important exception is the treatment of foreign oil companies involved in state contracts.

SALES TAX/VALUE ADDED TAX (VAT)

There is a 12% value added tax applied to all transactions including imports. There is a 0% rate on food items, agricultural inputs, medical goods, books and government purchases, and some professional services.

This tax is payable one month following the transaction from the 6th to the 28th depending on the firm's tax identification numbers.

FOREIGN MONEY TRANSFER TAX (ISD)

This tax is charged on the foreign currency value of all monetary transactions and operations carried out abroad with or without the intervention of the institutions of the financial system or over the value of payments made from accounts abroad for any reason. The rate of ISD tax is 5%.

The ISD should be paid by all individuals, foreign banks and private companies, local and foreign. Financial Institutions (IFIs) are constituted as withholding agents when transferring foreign currency abroad by its clients.

Withholding agents and officers of perception must collect from their customers, at the time they request the transfer abroad of foreign currency subject to this tax, in a Form of "Information Statement of Foreign Money Transfer Tax" through financial institutions or couriers.

FRINGE BENEFITS TAX

No fringe benefits are deductible as expenses in income tax liquidation. The only exception is that the company is allowed to pay and expense its employee income tax and social security contribution if the company has contracted to do so.

LOCAL TAXES
There are many and diverse taxes which are applied at local or regional levels. These include: urban property, rain water drainage, fire insurance, individual and corporate net worth, state university funds, fire department, transfer of property, etc. Nominally, there are no stamp duties.

OTHER TAXES
Other taxes imposed by the Ecuadorian Government include excise duties and oil and gas resources revenue taxes.

Likewise, the Superintendents of Companies, Banks, Financial Institutions and Insurance Companies charge annual fees to the companies they supervise.

B. DETERMINATION OF TAXABLE INCOME

DEPRECIATION
Business assets are subject to depreciation.

Costs are recovered in accordance of the goods involved based on their useful life and accounting techniques. In general, it is taken over five to 20 years.

STOCK/INVENTORY
Inventories are valued at cost in accordance with general accounting principles and standards established in regulations to the law.

CAPITAL GAINS AND LOSSES
Net capital gains and losses generally are included in the determination of assessable income.

DIVIDENDS
Dividends received by resident companies from other resident companies are tax free. Dividends received from non-resident companies are tax free.

INTEREST DEDUCTIONS
Interest is deductible. The deduction of both interest and the cost of foreign financing are allowed only if the loan has been registered with the Central Bank of Ecuador considering that, to be deductible from income tax, 22% for year 2013 withholding is required.

LOSSES
Companies which have sustained operating losses in a tax year may carry such losses forward to subsequent tax years and set them off over five years at the rate of 20% per annum, provided that not more than 22% (for year 2013) of the profits obtained in each fiscal year are allotted for such purposes. The carry back of losses is not permitted.

FOREIGN SOURCED INCOME
Domestic corporations are subject to taxes on their worldwide income with tax credits allowed for income taxes paid abroad.

INCENTIVES
Specific write-offs are provided for the mining and oil primary production industries. Expenditure on research and development also qualifies for special treatment.

C. FOREIGN TAX RELIEF

A general income tax exemption was introduced from 30 December 2007 related to income derived abroad that has been subject to income tax in another state and, accordingly, the ordinary tax credit method has been terminated.

D. CORPORATE GROUPS

No provisions exist for filing consolidated returns or relieving losses within a group.

E. RELATED PARTY TRANSACTIONS

Prior to administrative service fees being deductible when paid to foreign affiliates, the appropriate government authority must grant approval. Such payments are exempt from withholding tax. Other payments to foreign affiliates will only be deductible where income tax at 24% has been withheld.

F. WITHHOLDING TAX

Dividends paid to non-residents are subject to a 22% (for year 2013) withholding tax with a tax credit for company tax paid (ordinarily at 22%) being allowed against this withholding tax.

Royalties, service and rental fees attract the same 22% (for year 2013) withholding tax. However, interest payments are exempt from such a withholding tax (see 'Interest Deductions' in Section B above).

G. EXCHANGE CONTROL

Limited control is exercised. Direct foreign loans generally must be registered.

H. PERSONAL TAX

Income tax is payable by Ecuadorian resident individuals on non-exempt income derived from all sources. Non-resident individuals are required only to pay tax on Ecuadorian-source income. Residence is determined by reference to common law or to domicile or where the individual has spent more than one-half of the relevant income year in Ecuador unless, he or she has a usual place of abode outside Ecuador and does not intend to take up residence in Ecuador.

Income tax is payable on assessable income less allowable deductions. Assessable income includes business income, employment income, certain capital gains, rent and interest. Allowable deductions include interest and certain other outgoings paid in gaining the assessable income and gifts to specified bodies.

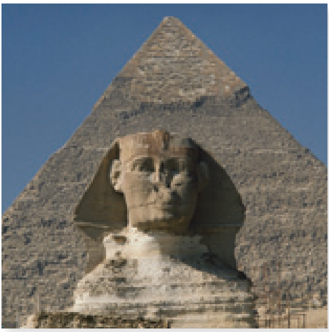
Most individual taxpayers have tax instalments deducted from each salary and wage payment made by their employers. Self-employed individuals and those with non-salary and wage income ordinarily pay a provisional tax which is an interim payment during the year in anticipation of the assessment of tax after the end of the income year.

RESIDENT INDIVIDUALS

Individual income tax (IIT)	Progressive from 5% to 35%
Real estate tax	From 0.025% to 0.3% for rural property and 0.025% to 0.5% for urban property; surtaxes and surcharges apply.
Inheritance/gift tax	Up to 35% tax.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Decisions 578 of the Cartagena Agreement have been adopted by Ecuador. This broadly means that relief from double taxation is provided for natural and juridical persons located in any of the Andean Pact countries. Ecuador has similar tax treaties with Belgium, Brazil, Peru, Colombia, Chile, Venezuela, Bolivia, Mexico, France, Germany, Italy, Spain, Romania, Switzerland, Canada and Korea.



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