



DOMINICAN REPUBLIC – 2009 BUSINESS ENVIRONMENT

Currency: Dominican Republic Peso (DOP)

Foreign exchange control: The foreign exchange regime is based on the free exchange of national currency against foreign currency.

Accounting principles/financial statements: IAS. Financial statements must be prepared on an annual basis.

Principal business entities: These are the joint stock company, limited partnership and general partnership.

Corporate taxation:

Residence – A company is resident if it is incorporated under the laws of the Dominican Republic or if its place of effective management is in the Dominican Republic.

Basis – The Dominican Republic taxes primarily on a territorial basis, whereby business income derived from activities performed in, property situated or economically used in, or economic rights used in, the Dominican Republic are taxed regardless of the nationality, domicile or residence of the economic participants or the contracting location.

Taxable income – Corporate tax is levied on the aggregate net income of various sources of business income, including capital gains on the transfer of business assets. Certain items of investment income derived by resident corporate taxpayers from foreign sources also are subject to Dominican tax, including dividends, interest on loans or bank savings, and gains derived from banking or financial operations, bonds, shares in capital companies, bills of exchange and other movable capital or securities on the capital markets.

Taxation of dividends – Dividends paid by a Dominican company to another Dominican company are not subject to income tax at the level of the recipient if tax was withheld on the distribution. The recipient must set up a separate

dividend account for such distributions; any subsequent distributions made by the recipient company will be deemed to have been paid out of that dividend account and will not be subject to further withholding tax.

Capital gains – Capital gains derived from the sale of fixed assets, immovable property or securities are normally included in gross income and subject to corporate income tax at the standard rate. The taxable amount of the capital gain is calculated as the difference between the amount received from the sale, alienation or other disposal of the asset (or its market value in the case of undervalued disposals) and the purchase or production cost, as adjusted for inflation.

Losses – Net operating losses may be carried forward for 5 years but carryback is not allowed. However, the deduction is limited to 20% of the annual total net losses carried forward. For the fourth year, the 20% deduction may not exceed an amount equivalent to 80% of taxable income and for the 5th year, the 20% deduction may not exceed 70% of taxable income. For newly formed entities, losses from the first year of operations should be fully deducted in the second year.

Rate – 25% Surtax – No

Alternative minimum tax – No **Foreign tax credit** – No **Participation exemption** – No **Holding company regime** – No

Incentives – A free trade zone regime offers an exemption from all taxes, duties, charges and fees for production and export. These incentives normally apply for 25 years for entities located near the Dominican-Haitian border and 15 years for those located throughout the rest of the country.

Withholding tax:

Dividends – Dominican-source dividends paid to individuals or legal entities (regardless of where they are resident) are subject to a withholding tax of 25%. If the distributing company fails to withhold tax on a payment to a nonresident, the foreign recipient will be obliged to pay the tax due.

Interest – Interest from Dominican sources paid or



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credited to nonresident taxpayers, other than financial institutions, is subject to a final 25% withholding tax. Interest paid to foreign financial institutions is subject to a 10% withholding tax. Interest paid on certain approved loans to the Dominican government or its institutions/entities is exempt. Interest on bonds issued by Dominican-domiciled entities and all interest on loans secured wholly or partially on immovable property located in the country are considered to be Dominican-source interest.

Royalties – Royalties paid to nonresident individuals and companies are subject to a final 25% withholding tax. Royalties paid by a permanent establishment to its head office abroad are considered to be a payment to a separate entity and, therefore, are subject to the 25% withholding tax.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – Capital duty is levied on the formation of a corporation at a rate of 1% of the capital amount.

Payroll tax – Employers must pay a monthly tax equal to 1% of the regular payroll to finance a special training fund. Employers also must contribute annually 0.5% of income derived from profit sharing and bonuses. Public and private sector employers must pay a fringe benefits tax on certain benefits. The fringe benefits tax is levied at a 25% rate and is payable by the employer on a monthly basis.

Real property tax – A 1% asset tax paid in two instalments applies to the value of a corporation's total immovable property as it appears in the company's financial statements.

Social security – Both employers and employees are required to make monthly contributions to the social security system. In addition to paying their own contributions, employers must withhold and remit the

contributions of their employees. Contributions are calculated on the employee's earnings (i.e. the daily salary as increased by any additional payment of bonuses and holiday allowances).

Stamp duty – Stamp duty is levied on: most written contracts; the registration and renewal of trademarks; documents evidencing loans, debts, shares and guarantees; and all documents prepared or registered by notaries and registrars. The rates vary depending on the taxable event.

Transfer tax – All transfers of real property located in the Dominican Republic are subject to a transfer tax at a rate of 3% on the price of the real property declared in the purchase and sale agreement.

Other – No

Anti-avoidance rules:

Transfer pricing – Transfer pricing rules were introduced in 2007, but clarifying regulations have yet to be issued. The rules provide that actual results obtained in the Dominican Republic will serve as the basis of Dominican-source income of branches and other permanent establishments of foreign enterprises operating in the country. The rules also contain provisions addressing application of the arm's length principle in certain export and import transactions, using the wholesale price at the place of destination as the basis for determining the real value of the goods exported. The tax authorities may adjust the transaction prices between a head office and a branch, and between related parties, to conform to the arm's length principle. Advance pricing agreements are possible in the hotel, pharmaceutical and energy sectors.

Thin capitalisation – No

Controlled foreign companies – No

Other – No



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Disclosure requirements – No

Administration and compliance:

Tax year – Generally, the calendar year closes on December 31, but a corporation can choose a closing period of 31 March, 30 June or 30 September.

Consolidated returns – Consolidated returns are not permitted; each company must file its own return.

Filing requirements – Companies are required to complete a tax return and compute their own tax liability. The return must be filed within 120 days of the end of the fiscal year and must include a balance sheet signed by a certified public accountant.

Penalties – Penalties may be imposed for late filing, failure to file and tax avoidance or evasion.

Rulings – Taxpayers may request rulings from the tax authorities on the tax treatment of specific transactions.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and services within the Dominican Republic and upon the import of goods.

Rate – 16%

Registration – VAT registration is included in the general registration as a taxpayer.

Filing and payment – Filing is required on a monthly basis by the 20th day of the month.

Source of tax law: Tax Code of the Dominican Republic, Law 11-92

Tax treaties: The Dominican Republic has 1 treaty (with Canada).

Tax authorities: Dirección General de Impuestos Internos (DGII)

International organisations: None

For further information about this issue, please contact: info@crlacorp.com

 CREDIT REPORT through the years:



1964



1994



2004



2007

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