



ECUADOR – 2009 BUSINESS ENVIRONMENT

Currency: US Dollar (USD)

Foreign exchange control: No

Accounting principles/financial statements:

Companies must follow Ecuadorian Accounting Standards, which are based on IAS. Financial statements must be prepared annually.

Principal business entities: These are the corporation (*Sociedad Anónima* (S.A.)), limited liability company (*Compañía de Responsabilidad Limitada* (Cía. Ltda.)) and branch of a foreign company.

Foreign investors starting a business in Ecuador prefer the corporation (sociedad anónima, or SA) and branch forms. The SA is the most flexible form, allowing a mixture of foreign and local capital. Limited-liability companies are useful as closed companies, but foreign corporations may not be shareholders of Ecuadorian limited-liability companies. The shares of limited-liability companies are not freely negotiable.

TAX ID NUMBER

The “RUC” (Unique Registry of Taxpayer), is the starting point for the tax administration process. The RUC is the tax identification number assigned to every physical person and company subject to tax liabilities. Through the RUC certificate (registration document), the taxpayer learns how to meet their tax liabilities. The taxpayers have two initial obligations with the Internal Revenue Service:

The Structure is as follows:

RUC number: **17 9 001167 4 001**

The RUC number has 13 digits; it has no letters nor special characters.

17: The first two digits indicate the province code and always range from 01 to 22

9: The third digit is always 9

001167: The fourth through the ninth digit make a sequential 6-digit number

4: The tenth digit is the check digit

001: The eleventh to the thirteenth digit, identify sequentially the number of establishments. Said number always starts with 001

The RUC number is: 1790011674001 disregarding the number of establishments of the RUC holder, there is no a RUC number such as 1790011674002

RUC number: **17 6 000155 0001**

The RUC number is a 13 digit number, with no letters nor special characters

17: The first two digits indicate the province code and always range between 01 and 22

6: The third digit is always 6

00015: The fourth through the eighth digit make a sequential 5 digit number

5: The ninth digit is the check digit

0001: The tenth through the thirteenth digit indicate in a sequential manner, the number of establishments. Said number always starts with 0001

The RUC number is: 1760001550001 disregarding the number of establishments of the holder, there is no a RUC number such as 1760001550002

Corporate taxation:

Residence – Residence for tax purposes is based on the place of incorporation.

Basis – Resident entities are taxed on worldwide income. Nonresidents are subject to tax only on Ecuador-source income.

Taxable income – Taxable income is comprised of gross income derived from the conduct of a business less allowable deductions. As from 1 January 2008, foreign income that has been subject to tax in another jurisdiction is not taxed (unless the income is derived from a tax haven).



ECUADOR – 2009 BUSINESS ENVIRONMENT

Taxation of dividends – Dividends received from another resident company out of profits that have been subject to corporate income tax are exempt.

Capital gains – Capital gains are treated as ordinary income and taxed at the normal corporate rate.

Losses – Losses may be carried forward for 5 years but they only may be offset against 25% of the profits earned in each tax year.

Rate – The normal rate is 25%, but a reduced rate of 15% applies where corporate profits are reinvested for the purchase of machinery and equipment. Companies engaged in the exploration or exploitation of hydrocarbons also are subject to the 25% income tax rate.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – See above under “Taxation of dividends”.

Holding company regime – No

Incentives – No

Withholding tax:

Dividends – Dividends paid to a nonresident are not subject to a tax withholding in Ecuador.

Interest – Interest paid on loans obtained from a nonresident is subject to a 25% withholding tax unless the rate is reduced under an applicable tax treaty. However, under a temporary measure for fiscal year 2009, interest on foreign loans will be subject to a 5% withholding tax.

Royalties – Royalties paid to a nonresident are subject to a 25% withholding tax unless the rate is reduced under an applicable tax treaty.

Branch remittance tax – No

Other taxes on corporations:

at a rate of 1% of the amount remitted.

A 70% extraordinary **Capital duty** – No

Payroll tax – Employers are required to pay 0.5% of payroll to a national training fund and 0.5% to an education credit program.

Real property tax – Urban property tax is levied annually by the municipalities on the owner of property at progressive rates ranging from 0.025% to 0.5%.

Social security – The employer must pay social security tax at a rate of 11.15% of an employee’s total salary.

Stamp duty – No

Transfer tax – Transfer tax is levied by the municipal governments on transfers of immovable property, the creation of trusts and certain gifts.

Other – Credit transactions are subject to a 1% tax, calculated on the principal on the loan. The tax is withheld by the financial institution.

A remittance tax is levied on remittances abroad made through a financial institution. The tax is imposed via withholding receipts tax is levied on companies that have concluded contracts with the Ecuadorian state for the exploration and exploitation of natural resources.

Anti-avoidance rules:

Transfer pricing – The transfer pricing regime is based on the OECD guidelines. Transactions between related parties must be carried out on arm’s length terms. Documentation rules also apply.

Thin capitalisation – As from 2008, interest payments on foreign loans granted by a related party are deductible only if the foreign debt does not exceed 300% of the entity’s paid-in capital.

Controlled foreign companies – No

Other – Ecuador has a GAAR.

Disclosure requirements – No

Administration and compliance:

Tax year – Calendar year

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

Filing requirements – Companies are required to make 2 advance payments of corporate income tax in an amount equal to 50% of the previous year’s tax liability, less any withholding taxes paid in that year. The advance tax may be credited against the final tax liability. An alternative advance payment system is based on specified factors. The final return must be submitted between 1 February and 10-28 April of



ECUADOR – 2009 BUSINESS ENVIRONMENT

the year following the tax year.

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

Rulings – The tax authorities can answer taxpayer questions but the answer is binding only on that taxpayer.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and the provision of services.

Rates – The standard rate of VAT is 12%; certain transactions are exempt or zero- rated.

Registration – No

Filing and payment – VAT returns should be filed on a monthly basis.

Source of tax law: Internal Tax Law

Tax treaties: Ecuador has concluded more than 10 tax treaties.

Tax authorities: Internal Revenue Service

International organisations: Andean Community of Nations, Latin American Association of Integration

For further information about this issue, please contact:
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 CREDIT REPORT through the years:



1964



1994



2004



2007

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