

DOING BUSINESS in ECUADOR



FOREWORD

This guide has been prepared with the purpose of providing basic information to people interested in investing and doing business in Ecuador. It does not cover in detail all the requirements and subjects to be considered, but instead it is intended to provide an overall idea of the benefits of doing business in Ecuador and the basic taxation requirements.

The guide is intended to be used for informational purposes only and therefore, you should consult a professional tax and business advisor to acquire more information.

The material contained in this guide is based on information and regulations in effect as of May 2020.





ABOUT BLITA INTERNATIONAL

BLITA International is a global association of independent tax accountants, tax attorneys and business consultants dedicated to providing personalized professional services for all your international tax planning and business management needs.

Our member firms are committed to provide the highest quality professional services to help meet your business and financial goals across international borders. The local expertise of our members regarding tax regulations, culture and knowledge of doing business in their home countries, allows them to provide the best solution and advice to maximize your profit and reduce your tax implications.



COUNTRY ESSENTIALS

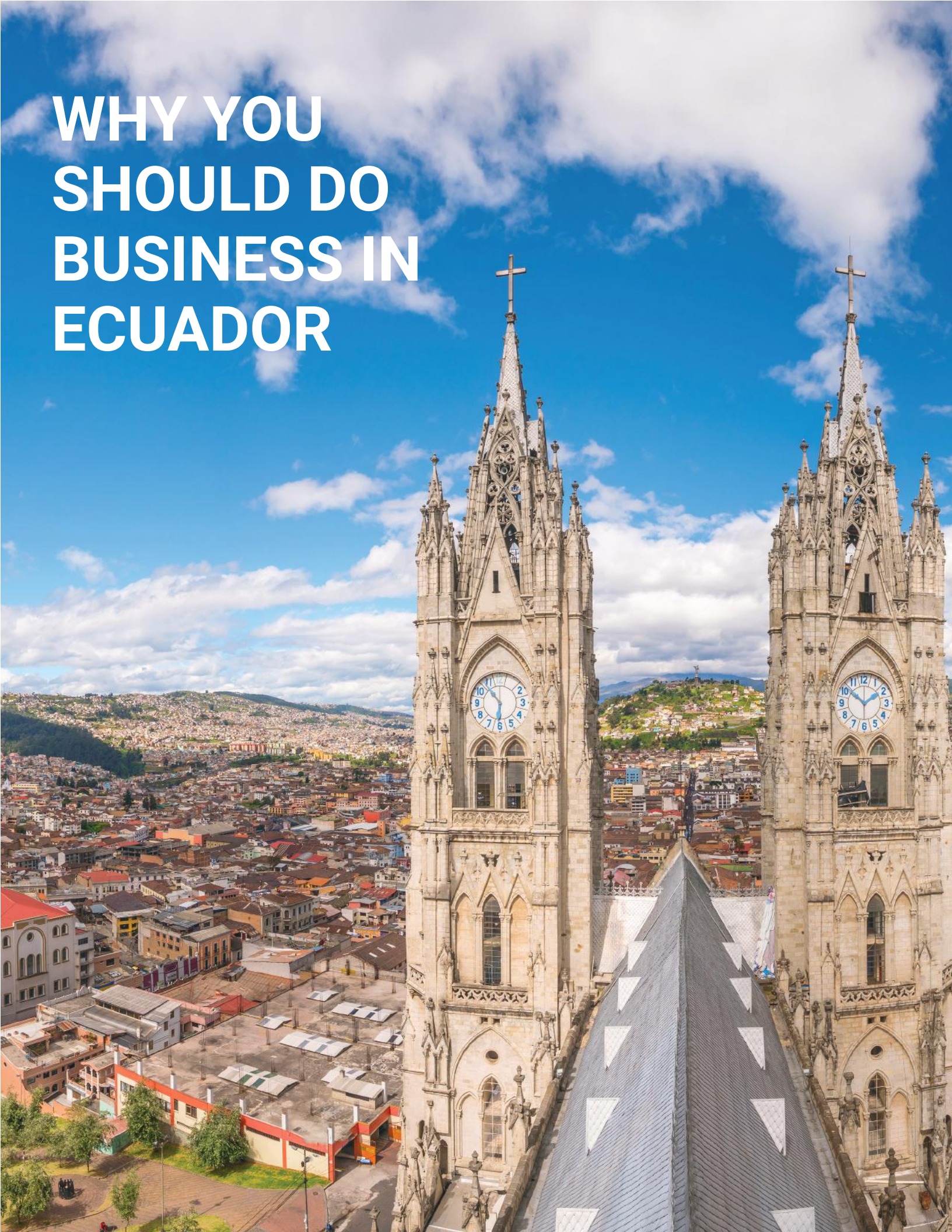
| | |
|----------------------------|--|
| Capital City | Quito |
| Area and population | 283,561 km ² and a population of 16,904,867 people (July 2020 est.) |
| Language | Spanish |
| Currency | United States dollar (USD) |
| International calling code | +59 |
| GDP | \$108 billion USD (2018 est.) |
| GDP per capita | \$6,319 USD (2018 est.) |
| Exports | \$21.6 billion USD (2018 est.) |
| Imports | \$23.2 billion USD (2018 est.) |
| Inflation rate | 0,3 % (2018 est.) |
| Estructura de gobierno | Ecuador is a presidential republic with a unicameral National Congress, which is constituted of 124 members that are elected via proportional representation to serve terms of four years. The president is directly elected every four years. |

BUSINESS AND TAX ADVISORS IN ECUADOR

Attorneys



WHY YOU SHOULD DO BUSINESS IN ECUADOR





STRATEGIC GEOGRAPHIC LOCATION

Ecuador is located on the northwestern coast of South America. It shares borders with Colombia to the north, Peru to the south and east, and the Pacific Ocean to the west.

The top 10 most active container ports in the world, with the exception of Dubai's Port of Jebel Ali, are in the Pacific Rim countries. With relatively low logistics costs, Ecuador serves as an advantageous distribution platform within this region with a significant commercial traffic volume. In addition, Ecuador's geographic location grants easy access to markets such as Colombia, Peru, Bolivia, and Chile in the South American subcontinent.

FULL MEMBER OF THE ANDEAN COMMUNITY

Ecuador is a full member of the Andean Community (CAN), along with Peru, Colombia, and Bolivia. Despite the fact that CAN had little economic relevance for many years, it has taken significant steps towards economic integration. Tariffs have been abolished between member countries, thereby establishing a free trade zone. Likewise, CAN provides multiple benefits for investors, including lower operating costs.

The Andean Community has signed cooperation agreements with Mercosur, gaining four new associate members: Argentina, Brazil, Paraguay, and Uruguay. Given economic policies that excluded competition since its formation, the CAN represents considerable opportunities to foreign investors.

FREE-TRADE ZONES

Provisions in the Ecuadorian Production Code authorize the creation of Special Economic Development Zones (ZEDES). ZEDES are aimed at industrial diversification, technology transfer, employment and foreign exchange generation, and the overall promotion of export projects.

These zones are subject to special trade, taxes, and financial regulations. Some of the benefits granted to entities include exemption from tariffs on imported goods entering these zones, exchange controls and special labor regulations, as well as up to 20 years of tax exemptions.



MAQUILA SYSTEM

Under a VAT and export fees exemption regime, the maquila system allows exports of goods from Ecuador with final added value incorporated in the country. The system guarantees favorable conditions in the long term, along with a policy of repatriation of profits and all foreign investment.

In addition, some special labor regulations are applicable to companies operating under the maquila system. Ecuadorian companies often lease their excess capacity and carry out assembly operations following the guidance and specifications of foreign companies.

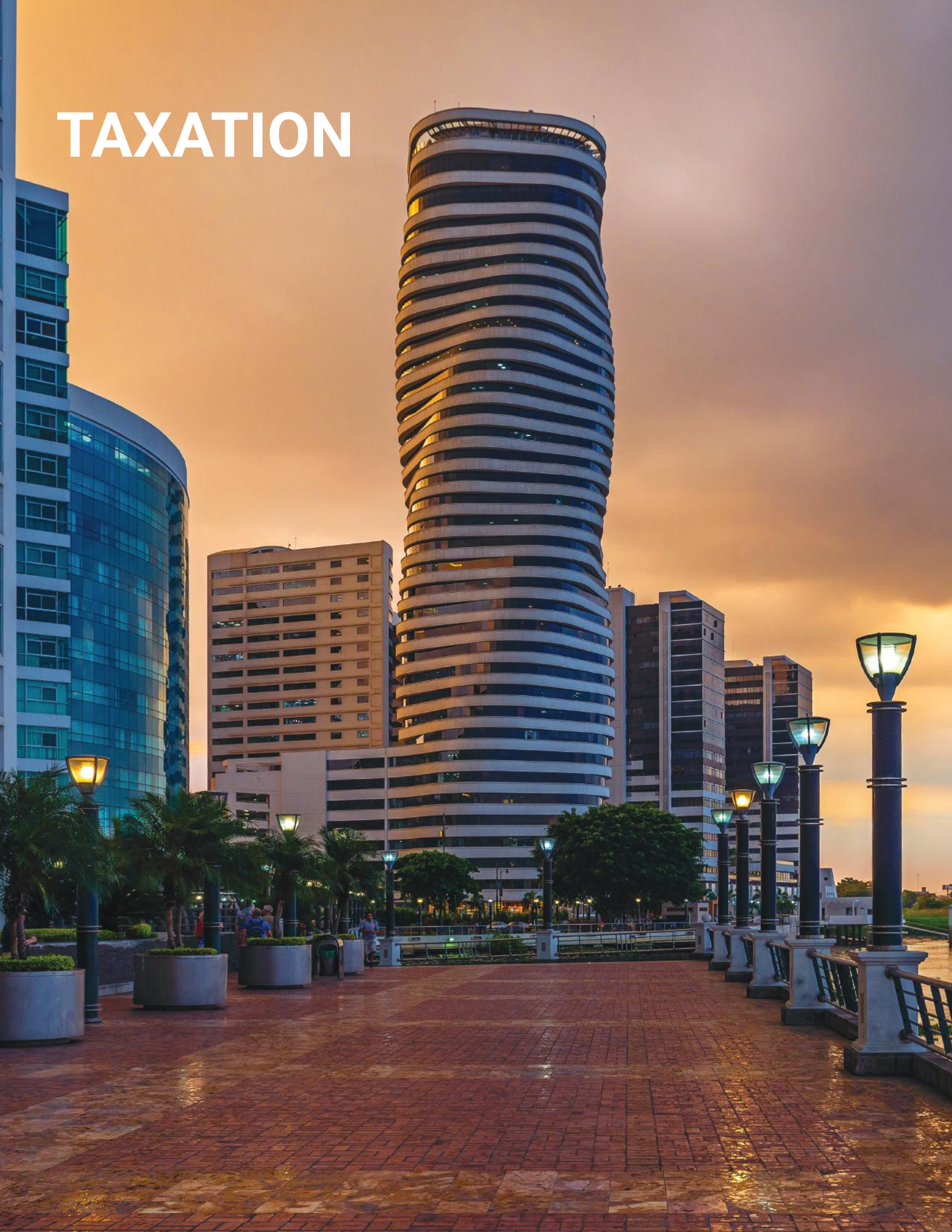
WIDE RANGE OF INVESTMENT OPPORTUNITIES

Ecuador is among the countries with the best economic performance in Latin America, having an annual growth rate of 7% in GDP and a dollarized economy.

It is considered a “megadiverse” country with more than 18,000 plant species and over 700 species of freshwater fish. So, there is an attractive opportunity for investment in sectors with potential technological applications, including the biotechnological industry, based on the country’s biodiversity.

The multiplicity of microclimates, permanent solar luminosity, fertility of the land throughout its four natural regions, and access to minerals are some of the factors that make Ecuador an advantageous place to carry out any type of productive and commercial activity.

TAXATION



CORPORATE TAXES

Corporate income tax is levied on income derived worldwide by corporations and business entities incorporated in Ecuador, and on income derived from Ecuadorian sources by non-resident entities.

The basic corporate tax rate applied to both resident and non-resident entities is 25%, with a 22% rate for micro and small companies. Additionally, there is a reduced rate of 15% or 18% for tourism companies within the country, some exporters, and companies that are dedicated to the production of goods with a “natural component” of 50% or more and reinvest their profits in the country.

Corporate residence is determined by Ecuadorian authorities as the place of incorporation. For tax purposes, there is a permanent establishment in Ecuador, if a foreign entity carries out all or part of its business activities in the country through an office or any other fixed place of business, or grants a power of attorney to an Ecuadorian individual.

TAXES ON CAPITAL GAINS AND DIVIDENDS

Capital gains are taxed as ordinary income at the corporate tax rate.

Dividends paid to an individual resident in Ecuador are subject to withholding tax of 7% or 10%.

ESTATE AND GIFT TAXES

All estates, inheritances, and donations from Ecuadorian sources are subject to taxation, both for residents and non-residents. The rates are progressive with the maximum a maximum rate of 35%:

| 0 to 72,060 | Exempt |
|--------------------|--------|
| 72,060 to 144,120 | 5% |
| 144,120 to 288,240 | 10% |
| 288,240 to 432,390 | 15% |
| 432,390 to 576,530 | 20% |
| 576,630 to 720,650 | 25% |
| 720,650 to 864,750 | 30% |
| 864,750 and over | 35% |

Applicable rates for the year 2019. All values are expressed in USD.

SALES / VAT TAXES

A sales tax is levied on all sale and purchase transactions of goods made in Ecuador, and on all services received from abroad, at a general 12% rate. There are exemptions for certain items and services, such basic foods and pharmaceutical products, among others.

In addition, special general rates are applied to alcoholic beverages, tobacco, leisure boats, and vehicles and aircrafts used for non-commercial purposes.

EMPLOYMENT TAXES

Withholding tax from income derived from employment is applied according to the following contribution percentages:

| | Employee | Employer |
|-----------------|----------|----------|
| Payroll Taxes | – | 1.00% |
| Social Security | 9.45% | 11.15% |

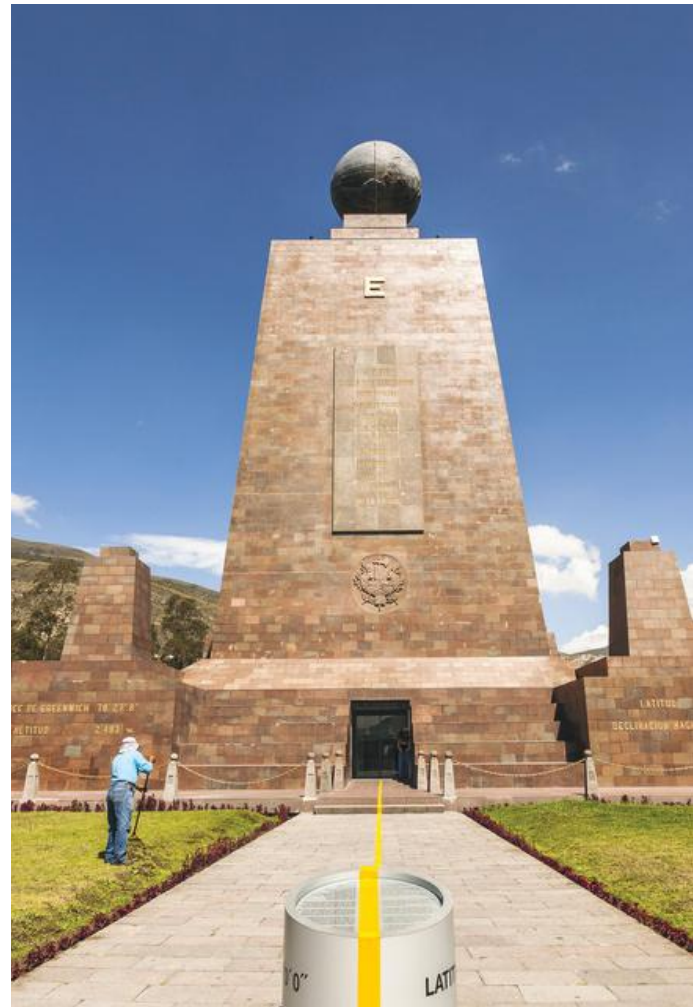
The minimum wage or unified basic remuneration is US \$ 400.00 for the year 2020. Social Security contribution is mandatory, and non-compliance is considered a crime.

PERSONAL TAXES

Ecuadorian residents are subject to tax on their worldwide income. Non-residents are taxed only on Ecuador-source income. An individual is considered a resident if he or she spends, continuously or not, more than 183 days of the fiscal year in Ecuador. Individual income tax is applied at progressive rates, with a maximum rate of 35%.

| | |
|-------------------|--------|
| 0 to 11.315 | Exempt |
| 11.315 to 14.416 | 5% |
| 14.416 to 18.018 | 10% |
| 18.018 to 21.639 | 12% |
| 21.639 to 43.268 | 15% |
| 43.268 to 64.887 | 20% |
| 64.887 to 86.516 | 25% |
| 86.516 to 115.338 | 30% |
| 115.338 and over | 35% |

Applicable rates for the year 2020. All values are in USD.



TRANSFER TAXES

Transfer pricing regulations were established by the Organization for Economic Cooperation and Development (OECD). Transactions between related parties must be carried out under market conditions.

Transactions of more than US\$3 million between related parties in the fiscal year must file a schedule of transactions with related parties. If these types of operations exceed US\$15 million in a fiscal year, the taxpayer is under the obligation to provide a transfer pricing report.

ESTABLISHING A BUSINESS



PROCESS TO INCORPORATE A COMPANY

An investor aiming to establish a business entity in Ecuador requires 11 procedures to be performed in an average of 48.5 days, a longer time span than the average of 30 days in Latin America and the Caribbean.

| PROCEDURES | TIME TO COMPLETE |
|--|---------------------------------------|
| Reservation of the company name at the Superintendence of Companies | Less than 1 day (online procedure) |
| Hire a lawyer to prepare the minutes of incorporation | 1 day |
| Notarize the incorporation documents and bylaws | 2 días |
| Register at the Superintendence of Companies | 1 day |
| Register the company's documents and resolutions, as well as the name of the company's legal representatives in the Mercantile Registry Office | 5 days |
| Apply for the <i>Registro Único de Contribuyentes</i> (RUC) - (Equivalent to tax I.D. number) | 4 days |
| Print invoices and VAT forms at an authorized printing shop | 1 day |
| Sign up online for Social Security (<i>Instituto Ecuatoriano de Seguridad Social - IESS</i>) and obtain password to operate the online system | 2 days |
| Subscribe all employee contracts with the Ministry of Labor (<i>Secretaría Nacional Técnica de Desarrollo de Recursos Humanos y de Remuneraciones del Sector Público, SENRES</i>) | 2 days |
| Receive an operations permit (<i>Licencia Metropolitana Única para el Ejercicio de las Actividades Económicas, LUA</i>) from the municipality | 29 days |
| Register for the Municipal Economic Activities Registry (<i>Registro de Actividades Económicas Tributarias, RAET</i>) and pay the Municipal License tax (<i>Patente Municipal</i>) | 1 day |
| Total number of days | 48.5 days |

REQUIREMENTS TO INCORPORATE A COMPANY





The *Compañía de Responsabilidad Limitada* (Cia. Ltda.), similar to a Limited Liability Company, is the most common form of incorporation in Ecuador. Shareholders in a Cia. Ltda. are liable only to the value of their shareholding.

COMPANY NAME

Ecuadorian regulations require company names to be unique and approved by the Superintendency of Companies. The registered name must include the designation “*Compañía Limitada*” or its corresponding abbreviation.

REGISTERED OFFICE

Under Ecuadorian regulations, all companies are required to have a registered office where documents may be legally served.

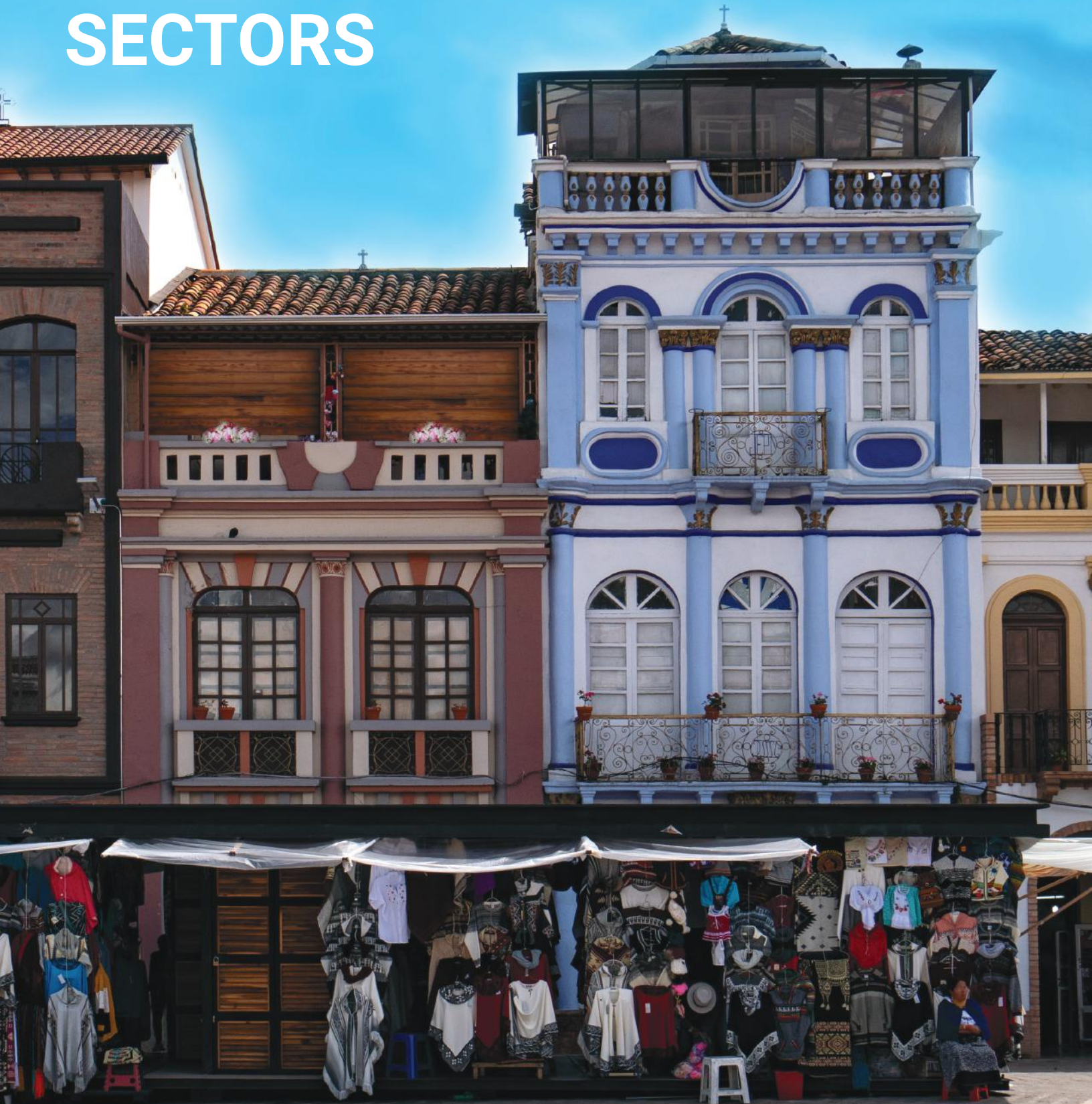
DIRECTORS

The main controlling body of a Limited Liability Company registered in Ecuador is the Board of Shareholders. In cases where the management of the LLC is performed by individuals, these must appoint the Board of Directors as the company’s controlling body.

SHAREHOLDERS

A Limited Liability Company registered in Ecuador must have a minimum of 3 shareholders, but no more than 15. There are no restrictions on the nationality or residency of the shareholders. However, the name of non-resident shareholders and the number of shares they own need to be disclosed. At least one yearly shareholders meeting is mandatory.

MARKET OPPORTUNITIES AND COMMERCIAL SECTORS





PROVISION OF SERVICES

Ecuador's largest economy sector is the service industry, which includes commerce, gastronomy, tourism, transport and communications and represents 56% of the Gross Domestic Product, with the most important sub-sectors being Professional Services, Technical and Administrative Services.



TEXTILE INDUSTRY

The textile industry is the second largest employer in the country, after food processing.

It is one of the oldest industries in the country. Until the 1990s, it was considered a focused activity in the domestic market, but today this sector constitutes around 15% of non-oil industries. Due to the dollarization of the economy in 2000, the industry experienced a boom and has been increasing at a rate of 30.5% per year in terms of textile exports.



TELECOMMUNICATIONS EQUIPMENT

The telecommunications sector in Ecuador has experienced steady growth over the last few years. There is an increasing demand for products and services in this industry, including multi-service access nodes, cell phones, ADSL modems, mobile networks, optic fibers and mobile networks.



AGROINDUSTRY

Ecuador is considered one of the most biologically diverse country in the world with more than 81 microclimates and with the highest concentration of rivers per km². This gives Ecuador the privilege of having excellent weather conditions throughout the year and permanent luminosity.

The agribusiness sector is quite extensive in the Ecuadorian territory, where several products destined mainly for domestic consumption such as corn, rice and sugar stand out; while palm oil, frozen vegetables and sugar stand out for export.

BUSINESS AND TAX ADVISORS IN ECUADOR



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