

Doing Business
in ECUADOR



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About Andersen

Andersen Global

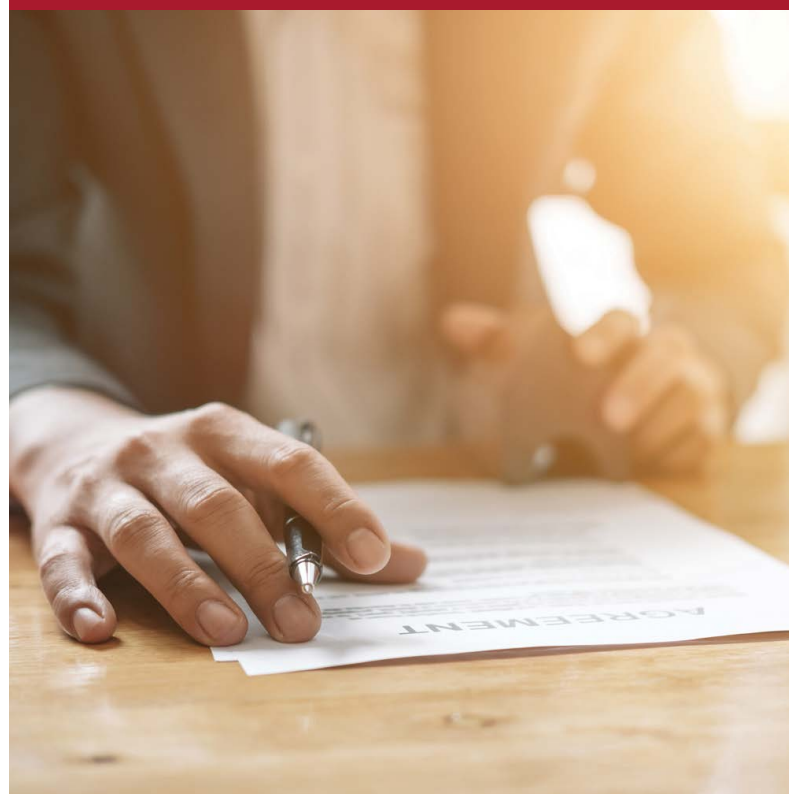
Andersen Global® was established in 2013 as an association of legally separate, independent member firms, with a worldwide presence and comprised of professionals that share a common background and the same vision no matter the location where they are.

Our growth is a byproduct of the outstanding client service delivered by our people, the best professionals in the industry and our objective isn't to be the biggest firm, it is to provide best-in-class client services in seamless fashion across the globe.

Our professionals are selected based on quality, like-mindedness, and commitment to client service, and each and every one of the professionals that are a part of Andersen Global share our core values.

Andersen Global was established to create an enduring place – ONE FIRM where clients across the globe are afforded the best, most comprehensive tax and legal services provided by skilled staff with the highest standards.

Andersen in Ecuador has offices in Quito and Guayaquil, ensuring a service with national coverage and a worldwide presence through Andersen Global.



About Andersen in Ecuador

Andersen in Ecuador has offices in Quito and Guayaquil, ensuring a service with national coverage and a worldwide presence through Andersen Global. Our firm specializes in risk prevention, tax and corporate law. As an independent tax and legal firm, we do not face the conflicts of interest that may arise with external service providers, allowing us to contribute to the management of the business activity.

2.

Country Highlights

Ecuador is a republic with a democratic decentralized government, located in the northwest of South America. Spanish is the country's official language, and the United States dollar is the legal currency since 2000.

Ecuador has a population of approximately 17 million people and in 2020, its gross domestic product was USD \$98.81 billion.

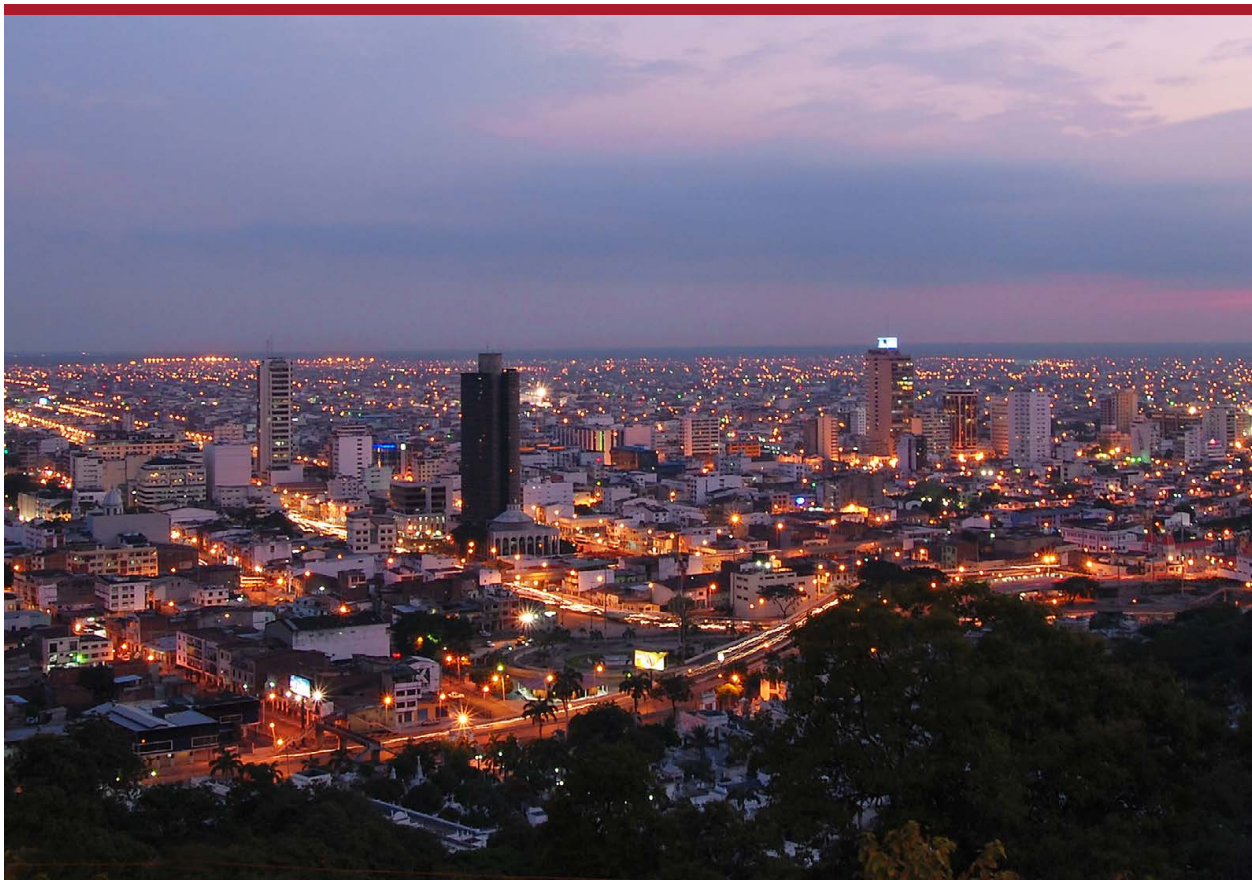
It suffered a decrease because of the pandemic emergency.

Ecuador has some of the world's most varied geography. Its territory is divided into four geographical regions: Andean Highland region, Coastal Lowland region, Eastern or Amazonia region and Insular region.

The country has enormous economic potential.

The country has enormous economic potential. Traditionally, its economy has been focused on the major oil industry and mineral resources as well as agriculture (banana, cocoa, coffee, flowers, roses, heart of palm and palm oil), aquaculture (shrimp and tilapia), fishing (tuna and sardines) and wood (balsa and teak) production.

Additionally, in recent years, Ecuador has encouraged the change of its production matrix to diversify its exportable resources and has looked to new markets for its products.



3.

Corporate Aspects

The most common business structures set up in Ecuador by foreign investors are corporations, limited liability companies, and branches of foreign entities. The main features of these structures are:

Corporate Name	Sociedad Anónima	Responsabilidad Limitada	Sociedad por Acciones Simplificada SAS	Foreign Entity
Legal Status	Separate legal person from its owner, with the legal capacity to acquire rights and obligations			Separate entity approach only for tax purposes
Number of Participants	Minimum two shareholders, reducible to one. No maximum	Minimum two members, maximum 16	Minimum one shareholder, no maximum.	n/a
Minimum Capital	USD \$800	USD \$400	USD \$1	USD \$2000
Legal Reserve	10% annually up to an amount of 60% of the capital	5% annually up to an amount of 25% of the capital	n/a	n/a
Liability	Generally limited to the amount contributed to the company's capital	Generally limited to the amount contributed to the company's capital	Generally limited to the amount contributed to the company's capital	Not limited
Participation	Shareholders acquire participation in a share of capital equal to their contribution (money or kind), which grants them voting rights as well as economic rights.	Partners have an interest in the capital equal to their contribution, which grants them voting rights as well as economic rights.	Shareholders acquire participation in a share of capital equal to their contribution (money or kind), which grants them voting rights as well as economic rights.	n/a



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Investment Climate

Looking to attract foreign investments, since 2010, Ecuador has introduced significant tax incentives aimed at promoting specific economic sectors (prioritized sectors, basic industries and public-private partnerships), which mainly translates into tax exemptions and the reduction of customs duties.

Ecuador has 19 tax treaties to avoid double taxation with Belarus, Belgium, Brazil,

Canada, Chile, China, France, Germany, Italy, Japan, South Korea, Mexico, Qatar, Romania, Russia, Singapore, Spain, Switzerland and Uruguay. The treaty network continues its expansion. The tax treaty with the United Arab Emirates is in the approval process, and treaties with other countries are still in negotiations. In addition, Ecuador applies Decision 578 among members of the Andean Community (Bolivia, Colombia and Peru).

Ecuador recognizes to foreign investors, among others, the right to freedom of production and commercialization of goods and services, free transfer of earnings or profits derived from the registered investment, access to internal and external financing, freedom of mobility and free movement of capital. In addition, it ensures non-discriminatory treatment to foreign investors.

Payroll Charges and Labor Rights

Employment Contracts

The elements of the employment relationship are the provision of licit and personal services, subordination or dependence, and the payment of a salary. The types of contracts in Ecuador are:

- **Undefined:** This is the typical mode, stable and permanent, which can include 90 days trial period.
- **Temporary:** This type of contract satisfies temporary situations related to the employer activity. It can last 180 days, continuously or not throughout 365 days, and a charge of 35% of the salary basis (USD \$425) must be paid.
- **Occasional:** The contract satisfies emergency situations not related to the employer activity. It can last until 30 days in a year and with a charge of 35% of the salary basis (USD \$425).
- **Seasonal:** These contracts satisfy cyclical or periodic works, and they are stable.
- ***Special Emergent Contract:** This type of contract was recently created because of the pandemic and has special regulations. It can be ended for any party without compensation. It can last one year, renewable for one more year, and after renewal becomes an undefined contract. The workday needs to have a minimum of six hours a day

and a maximum of eight hours, as well as a maximum of 40 hours per week and a minimum of 20 hours.

- **Ordinary Workday:** Generally, the ordinary workday is up to eight daily hours and 40 weekly hours per five days during the week and two days of continuous rest. The employer can request authorization from the Ministry of Labor for special workdays.
- **Basic Salary:** The employer must pay a monthly salary not less than USD \$425 for the year 2022, notwithstanding the minimum sector salary for each kind of activity. This amount is set annually.



Principal Charges

- **Night Shift:** Hours fall between 7 PM and 6 AM of the next day. It can last the same time and grants the same salary of a morning shift, increased by 25%.
- **Supplementary Shift:** This exceeds the ordinary workday, which cannot be more than four hours per day, neither 12 hours in a week. If the excess happens during the day or until 12 AM, the employer shall pay a salary that represents a 50% surcharge per hour. If those hours take place between 12 AM and 6 AM, the employer shall pay a 100% surcharge. For calculation purposes, the employer will take the salary that corresponds to the morning shift hour as a basis.
- **Extraordinary Shift:** The work done during the weekend (between Saturday and Sunday), or on obligatory rest days, shall be paid in a 100% surcharge.
- **Employment of People with Disabilities:** Employers with over 25 employees, must hire at least 4% of people with disabilities (people with 30% or more of disabilities), until 50% of the required number can be substituted. Those in charge of handicapped individuals are considered as substitutes.
- **Fourteenth Salary:** The employer must pay a monthly bonus, which will be equivalent to the 12th part of the basic salary.
- **Workers Participation:** The employer must pay 15% of the profits (accounting profit) to their employees.
- **Vacations:** All the workers have the right to take 15 days of vacations (uninterrupted) per year, including non-working days. Employees who have worked for more than five years with the same employer will have an additional day of vacation for each extra working year, or they will receive in cash the salary corresponding to those days.
- **Reserve Funds:** The employer must pay the worker, as of the 13th month of the employment relationship, an amount equivalent to 8.33% of the salary.
- **Social Security:** The employer must enroll their employees to the Social Security (IESS) on the first working day, registering the notice of entry as well as the outbound notice and salary modifications. The employer must pay to IESS the 12.15% of contributions (salary + other permanent income) and withhold the 9.45% of the personal contribution of the worker.

Additional Remunerations

- **Thirteenth Salary:** The employer must pay a monthly proportion of the 12th part of remunerations received during the calendar year or accumulated in December under the written request of the worker.

5.

Ecuadorian Taxes Overview

The main direct taxes applicable in Ecuador are:

- **Corporate Income Tax**
- **Foreign Currency Outflow Tax:** 5% on any foreign payment and on the number of exports of goods and services that were not returned to Ecuador in the legal term.
- **Withholding Income Tax for Non-Residents:** Non-residents are subject to tax on the income sourced in Ecuador. The general withholding tax rate is 25%, except for payments to tax havens, low

All local companies shall pay 15% of gross profit to their employees.

tax jurisdictions or special tax regimen, in which it applies 35%. Taxable dividends are subject to a withholding of 10% or 14%, depending on the residency of foreign shareholders.

- **Workers Participation in Profits:** All local companies shall pay 15% of gross profit to their employees.



6.

Corporate Income Taxes

- **Taxation:** Residents are taxed on their worldwide income.
- **Residence:** Incorporation or creation of companies under the laws of Ecuador.
- **Taxable Base:** Net incomes minus allowable costs and expenses.

Residents are taxed on their worldwide income.

- **Tax Rate:** The general rate is 25%. However, it may increase 3% (up to 28%) if the company does not reveal the shareholder's structure (identity of shareholders, participation and residence mainly), or if within the shareholding structure, there is a resident in a tax haven, lower tax jurisdiction or preferential tax regime, and the ultimate beneficial owner is a tax resident in Ecuador. The addition of 3% will apply to the entire taxable base of the company when the participation of shareholders, for whom any of the referred situations is incurred, is equal to or more than 50% of the share capital. Otherwise, the 3% will be applied to the proportion of the tax base corresponding to such participation.
- **Taxation on Dividends:** Dividends distributed to foreign corporate shareholders are subject to 10% or 14% (tax havens or no revealing of



shareholders' ultimate beneficial owners) withholding tax, depending on the residency of shareholders. When the beneficial owner is a private individual resident in Ecuador, such dividends are taxed in proportion to the participation up to 35% and with the right to tax credit for the underlying income tax paid by the distributing entity.

- **Taxation of Capital Gains:** Direct or indirect transfers of shares, participations, interest and other rights in any local entity in exchange for consideration are subject to a final income tax on a progressive rate from 2% to 10%. Any other capital gain is taxed as ordinary income.

7.

Indirect Taxes

Value Added Tax

The taxable base for VAT is 12% in general, but it can be 0% on the supply of goods, provision of services and transfer of intellectual property rights. The tax entitles a tax credit for five years. Exporters of goods and services may use the tax as a tax credit or request reimbursement of VAT paid on the purchase of goods, services and assets used directly in their production processes.

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Property Taxes

Urban Property Tax: This is the value that is canceled for owning one or more properties located within the boundaries of the urban area within the same jurisdiction. If the company owns real estate (urban or rural), it must pay the property tax in the municipality of the canton where the property is located. Ecuadorian law stipulates that owners of urban or rural lands must pay the property tax annually.

The property tax can be canceled from January 1 to December 31 each year.

The property tax can be canceled from January 1 to December 31 each year. The tariff is that factor applicable on the taxable cadastral value, and the property tax rate varies from 0.025% to 0.5% for urban and from 0.025% to 0.3% for rural.

Tax on Municipal Permit: Under Ecuadorian law, companies engaged in economic activities must pay tax on the municipal permit in the canton or cantons where the activity is carried out. This tax is payable until January 30 of each year. The tax returns correspond to the tax year in which the economic activity took place. The tax shall be chargeable from the date on which the time limit for filing the relevant declaration



expires. A permanent activity is defined as an activity carried out for a period of more than six months within the same calendar year, whether consecutive or not. The taxable amount of this tax is the net worth of the subject of the tax. Equity means the difference between total assets and total liabilities, established based on public records.

9.

Transfer Pricing

Transactions between related parties are subject to transfer pricing, and for this purpose, the Organization for Economic Co-Operation and Development (OECD) guidelines are used as a technical reference. However, Ecuador is not a member of the OECD. The application of the guidelines is not mandatory, but it is a mere guideline taken into consideration by the Tax Authority and is highly accepted.

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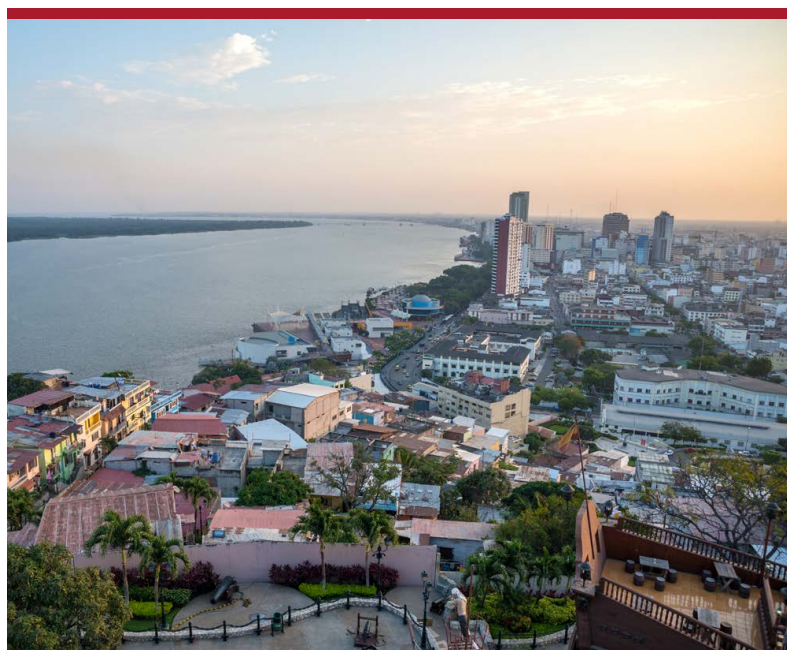
10. Estate Tax

Estate tax applies to the increase in assets arising from inheritance, legacies, donations and any type of act or contract by which the ownership of property and rights existing in Ecuador is acquired by free, regardless of the place of death, nationality, domicile or residence of the deceased or donor. In the case of residents of Ecuador, this tax will also be applied to the increase in assets or rights existing abroad. For non-resident individuals, the tax is applied only on the increase of assets or rights in Ecuador.

The taxes must be paid based on the income from inheritance, legacies and donations which is constituted by the value of the property and inheritance rights of the inheritance, legacies or donations. The valuation of property and rights shall be carried out according to the criteria indicated by law.

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In inheritance or legacies, the children of the deceased who are minors or with disabilities are not taxable in the percentage and proportionality indicated in the regulations of the Organic Law on Disabilities. Beneficiaries of inheritances and legacies, who are in the first degree of consanguinity with the deceased, are exempt of paying the corresponding tax since November 2021.





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