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Tax & Legal



# NEWS

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## ORGANIC LAW

### ORGANIC LAW TO ADDRESS THE INTERNAL ARMED CONFLICT, SOCIAL AND ECONOMIC CRISIS

The *Organic Law to Face the Internal Armed Conflict, Social and Economic Crisis* published in Supplement No. 516 of March 12, 2024 is in force; **The new law introduces significant tax reforms that impact various taxpayers in Ecuador.**

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The recent Law introduces tax reforms in several key aspects, mainly the Value Added Tax (VAT), a Temporary Security Contribution (CTS), a Temporary Contribution to Banking on profits of Banks and Savings and Credit Cooperatives, and the increase of the rate for the Tax on the Exit of Foreign Currency (ISD). It is important to note that the regulations for the application of these provisions must be issued by the President within a maximum period of 30 days from their official publication on March 12, 2024.

Below are the key points for each of the mentioned tax reforms:

#### Temporary Security Contribution

- **Purpose:** To raise resources to address the internal armed conflict.
- **Destination of the funds:** Strengthening of the National Police, Armed Forces, as well as for strategic intelligence and coordination between the forces of law and order with the judicial function.
- **Taxpayers:** Companies tax resident in Ecuador and permanent establishments with taxable income in fiscal year 2022, excluding micro, small companies, banks and savings and credit cooperatives.
- **Rate:** 3.25% on profits taxed with Income Tax (**IR**) in 2022.

- **Deadlines:** The **Internal Revenue Service (IRS Ecuador)** must issue **Resolution**, with the limitation that the deadlines for declaration and payment are not later than March 31, 2024 and 2025.
- **Deductions:** It is not deductible from income tax.
- **Fines:** 3% of the obligation generated per month or fraction of delay, without the need of an **Administrative Resolution**. The fine will operate independently of the surcharge and interest generated.

## Temporary Contribution on profits of Banks and Savings and Credit Cooperatives

- **Object:** To temporarily establish a Contribution on the profits of Banks and Savings and Credit Cooperatives..
- **Taxpayers:** Banks and Savings and Credit Cooperatives Ecuadorian tax residents, as well as branches of foreign Banks and Savings and Credit Cooperatives domiciled in Ecuador, which have had taxable profits during fiscal year 2023.
- **Contribution rates:**

Group	Taxable Profit	Rate
Group 1	Under \$5,000,000	5%
Group 2	\$5,000,000 up to \$10,000,000	10%
Group 3	\$10,000,000 up to \$50,000,000	15%
Group 4	\$50,000,000 up to \$100,000,000	20%
Group 5	Over \$100,000,000	25%

- **Taxable base:** taxable income taxed with **Income Tax** for fiscal year 2023.
- **Deadlines:** The **IRS** must issue Resolution, with the limitation that the deadlines for declaration and payment are not later than May 31, 2024. No payment facilities are offered for this tax.
- **Deductibility:** This contribution is not deductible from **Income Tax**.

## New Value Added Tax Rate

A general **VAT** rate of 13% is determined, with the possibility that the President of the Republic may adjust it, with a maximum limit of 15%.

Additionally, a new **VAT** rate of 5% is established for local transfers of construction materials.

## New Rate for the Tax on the Exit of Foreign Currencies

The President of the Republic is granted the power to modify the **ISD** rate, both in general and by sectors, after obtaining a favorable opinion from the governing body of public finances. In this line, a fixed rate of 5% is established for the **ISD**.

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As experts in the field, we understand that **legislative changes and regulations** can generate doubts and concerns. So we are committed to being your trusted partner and providing clear and accurate answers to all your questions. **Our team of highly trained professionals** is here to guide you through any legal or tax challenges you may face.

If you have any questions, concerns or would like to take advantage of our services, please do not hesitate to contact us. We are eager to listen to your inquiry and offer solutions tailored to your business needs.



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