

Navigating new territory Internationally Mobile Employees

International Assignment Services

Taxation of International Assignees Country – Ecuador

*Human Resources
Services*

*International
Assignment
Taxation Folio*



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Country: Ecuador

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Introduction:

International assignees working in Ecuador

This booklet is intended to assist foreign nationals sent to work in Ecuador with their tax planning. It gives a broad background to taxation in Ecuador and other important aspects to be considered by a foreign national working in Ecuador on a temporary basis.

This booklet is not intended to be a comprehensive guide. It merely attempts to give an overview of the issues involved. Accordingly, professional advice should be sought before making important decisions.

Last updated: July 2013

This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.

Menu

Step 1: Understanding basic principles

The scope of taxation in Ecuador

1. Ecuador currently taxes its resident citizens and foreigners on their Ecuadorian-source income. Ecuadorian-source income is defined as any income derived from activities executed in Ecuador, regardless of where the income is received. It also includes income obtained abroad by Ecuador resident individuals and corporations, whether local or foreign.

The tax year

2. The tax year runs from January 1st to December 31st.

Methods of calculating tax

3. Income taxes for individuals are levied on a progressive scale at rates which vary from 0% to 35%. For a schedule of the rates of tax please refer to Appendix A.

Husband and wife

4. Husband and wife are required to file separate income tax returns for the income derived from employment, a profession or a business. Joint income or income that cannot be definitely attributed to one spouse in particular must be split equally and added to the spouses' respective tax returns.

Residence

5. Individuals staying in Ecuador for a period longer than 6 months or with resident visas are subject to income tax on any earnings and are not entitled to exclusion of income for periods of temporary absence from Ecuador.

Non-residents

6. Nonresidents are subject to tax on their Ecuador-source income regardless of their domicile or place of residence. Nonresidents residing in Ecuador for a short period of time (less than six months) are subject to a flat 22% income tax on income received from local sources, which is withheld at source. Payments made to foreigners occasionally working in Ecuador, when not charged to an Ecuadorian company or local branch of a foreign entity; do not give rise to income tax.



Step 2:

Understanding the Ecuador tax system

Gross income

7. For personal income tax purposes, it is necessary to differentiate between two main contractual relationships that may exist between a company and a person: labor and professional fee-based relationships.
8. A labor relationship exists where a person provides personal and legitimate services to a company under the provisions of the Labor Code. The employee is then under a labor contract and included in the company's payroll, thus receiving a fixed monthly salary plus fringe benefits.
9. A professional fee-based relationship exists when an individual provides professional services to a company on a freelance basis or under a civil contract. This individual is not included in the company's payroll and is not subject to regulations established in the Labor Code. Usually this contractual relationship is used for independent contractors. Their remuneration will always be called "fees."

Employee gross income

10. Residents (national or foreign) are taxed on their total labor compensation, net of social security contributions.

11. Total compensation includes any payments in cash, kind or services made by the employer including statutory social benefits. Allowances such as cost of living, car, vacation travel, housing, and utilities are considered taxable.
12. In cases where the employer pays personal income taxes and social security contributions on account of an employee (net salaries), the income tax liability on the net salary is added only once to the total income to arrive at a taxable base and the social security deduction is not allowed.

Independent professional gross income

13. Residents (national or foreign) are taxed on the total fees invoiced.

Capital gain and investment income

14. Occasional capital gains (defined as those obtained in the sale of real estate and stock transactions) are exempt from income tax. Other financial investment income forms part of an individual's taxable income. Dividends received from local corporations are taxable; interests received from local savings account deposits are tax exempt.

Deductions

Business deductions

15. Expenses incurred in order to generate, maintain, or improve taxable Ecuadorian-source income are in principle deductible. For those individuals under a fee-based relationship, only business deductions can be justified.

Non-business expenses

16. Social security contributions are the only deductions allowed against income arising from employment. Independent professionals who have voluntarily subscribed to the social security system are also allowed such deduction.
17. Housing, education, health, clothing and food, up to 50% of the taxable base, with a maximum of 130% of the amount of the personal tax allowance (see next paragraph), or USD 13,234. In order to benefit from this deduction, the taxpayer is required to have the supporting documentation for each expense (i.e. a legal invoice) and file the corresponding annex with the income tax return. In the case of individuals working under a labor relationship with no additional income (no filing of income tax return required), the employee must estimate his yearly expenditures and provide the amount to his employer in the month of January, who must adjust the monthly income tax withholdings accordingly.

The tax is re-liquidated in October with real figures, which is reflected in the withholdings of November and December.

Personal allowances

18. An annual personal allowance of \$ 10,180 is built into the current progressive tax table, which means that individuals pay income tax on income over \$8,910.

Tax credits

19. Income perceived by independent professionals are subject to 8% or 10% income tax withholding which can be offset against their final income tax obligation.
20. Income received in a foreign country is tax exempt in Ecuador if it has been taxed abroad. Otherwise, a tax credit may be allowed for the individual.

Other taxes

Social security contributions

21. The current employee's personal contribution to the social security system is 9.35% of remuneration arising from employment (except certain statutory social benefits received). Special rates apply to employees working on special sectors of the economy. Social security contributions are deductible, except when borne by the employer.
22. Independent professionals which have voluntarily subscribed to the social security system are required to pay social security contributions at the rate of 17.50%.

Local taxes on income

23. There are no local (provincial, county or municipal) taxes on income.

Value-added tax (VAT)

24. No VAT applies on employment services under a labor relationship. Personal services provided under a professional fee contract relationship are subject to VAT at 12%, which, when provided to companies, is subject to withholding by those companies.
25. Professionals are required to file VAT returns.

Tax administration

Returns

26. Annual tax returns need not be filed if the taxpayer's income does not exceed the taxable base (i.e., \$10,180); the employer's annual withholding return is considered the employee's return in such cases. If taxable income is earned from other sources, or from more than one employer, the employer must consolidate both incomes in a single annual return which must be paid by March of the following year.
27. Individuals who end their economic activity prior to the end of the fiscal year are required to file their corresponding income tax return upon termination of activity. Once this return is filed, the individual must cancel the Taxpayer Identification Number (TIN) connected with the activity within 30 days of terminating such activities.

28. Individuals are obliged to file an annual equity statement provided the amount of the assets exceeds USD 200,000 individually or USD 400,000 for the marriage consider as a unity.

Payment of tax

29. In the case of employees, there is mandatory monthly withholding by the employer as long as the total annual net income exceeds the taxable base of \$10,180. Independent professionals are required to make advance tax payments equivalent to 50% of the previous year's tax less withholdings for that year. These tax advances payments are made in July and September.



Appendix A:

Individual income tax rates for 2013

Tax rates

The tax table applicable in Ecuador as of January 1, 2013 is as follows:

Taxable income over	Not Over	Tax on Column 1	Percentage on excess
0	10.180,00	—	0%
10.180,00	12.970,00	—	5%
12.970,00	16.220,00	140,00	10%
16.220,00	19.470,00	465,00	12%
19.470,00	38.930,00	855,00	15%
38.930,00	58.390,00	3.774,00	20%
58.390,00	77.870,00	7.666,00	25%
77.870,00	103.810,00	12.536,00	30%
103.810,00	And over	20.318,00	35%

Appendix B:

Typical tax computation

Individual tax calculation for calendar year 2013

Assumptions

- Foreign person residing in Ecuador for an entire calendar year and under labor relationship;
- Remuneration does not include Ecuadorian statutory social benefits; and
- Taxpayer pays own social security contributions and income tax.

Tax computation	\$	\$
Remuneration	60,000	
Statutory social benefits	—	
Thirteenth salary (Christmas bonus)	5,000	
Fourteenth salary (Educational bonus)	318	
Interest income in saving accounts (nontaxable)	1,000	
Capital gains, other than occasional	500	
Total income		66,818
Less — specific deductible expenses:		
Exempt income	(6,318)	
Social security contributions (60,000 x 9.35%)	(5,610)	
Deductions	(13,234)	
Total deductions		(25,162)
Taxable base (i.e., taxable work income)		41,656
Tax calculated thereon:		
Income tax on first 38,930	3,774	
Income tax on excess at 20%	545,20	
Total income tax		4,319,20
Less - Tax withheld by employer (estimate)		(4,319.20)
Tax due		0

Reconciliation	\$
Total income from all sources	66,818
Total taxable income	(4,319.20)
Total contributions to social security	(5,610)
Net income	56888,80

Notes

1. At the moment that the company shares on its profits (statutory profit sharing) with its employee such profit sharing will become part of the person's taxable income.
2. The monetary unit is the U.S. dollar.



Appendix C: Ecuador contacts and offices

Contacts	Office
PwC Quito	Quito
Pablo Aguirre	PwC Asesores Gerenciales Ltda.
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