

## *PwC InterAméricas Tax News*

Law 139-11 for increasing the tax  
income and allocate more funds to  
education

*Dominican  
Republic  
June 2011*

# PwC InterAméricas

## Tax News

### **Law 139-11 for increasing the tax income and allocate more funds to education**

Dominican Republic– June 2011

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On June 24, 2011, the Executive Power enacted Law 139-11 in order to increase tax revenues and allocate more resources to education . This law was published in a newspaper of national circulation on June 28, 2011.

The most important modifications introduced in the bill are:

#### **Corporate Income Tax**

Increases the rate of corporate income tax from 25% to 29% for a two-year period.

***The corporate tax rate of companies whose fiscal year ends June 30, September 30, or December 31, 2011, will be 29% on net taxable income.***

The rate of income tax for natural person and / or employees is not affected with the provisions of this new law and therefore the taxable rate will still be based on the current scale, ranging from 15% to 25%.

#### **Withholding taxes**

Concept	Applicable Withholding Rate
Payments Abroad	29%
Interests paid to credit institutions abroad	10%
Interests paid to non financial institutions abroad	29%
Dividends paid or credited in cash	29%
Fringe Benefits	29%

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***In the case of withholdings, the rate of 29% will apply since the entry into force and apply until June 2013. This does not apply to employees.***

### **Tax on Net Financial Assets**

In addition to the corporate income tax of 29% it establishes an additional tax of 1% on Net Financial Assets for Multiple Banks, Savings and Loans Associations, Savings and credit Banks and credit corporations.

Net Financial Assets are defined as:

The loan portfolio net of provisions;  
Investments in securities net of provisions, excluding investments in Dominican government Central Bank of the Dominican Republic securities.

The tax rate on net financial assets will be 1% per year, and should not to exceed the net taxable income before the expenses generated by this tax calculated on the total average interest-earning financial assets for the year and it applies to from the first seven hundred million pesos.

This tax must be filed and paid through return forms provided by the Tax Authorities (DGII) on the same date the Income Tax Return is filed.

The payment of this tax exempts these institutions from the obligation to pay the asset tax established by Law 557-05, except to entities that the effect of this law have the obligation to pay the tax on net financial assets productive.

***The amount paid for this tax will constitute a deductible expense for tax purposes, the tax must be paid in the fiscal year.***

The tax on financial assets net production is valid for a period of 24 months (two years) starting from the date of enactment and shall apply in fiscal years 2011, 2012 and 2013 in the proportion of the calendar year.

### **Advance Payment on Financial Assets Tax**

Companies under this tax must pay a monthly payment equivalent to one twelfth (1 / 12) the rate of one percent (1%) over the productive assets of the month. The deposit must be paid within the first fifteen days of each month.

### **2.5% tax on gross sales of free trade zones**

Establishing a 2.5% tax on the gross sales of goods and services by companies in free zones in the local market to individuals and legal entities.

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### **Withholding taxes related to article 309**

This law increases from the withholding tax from 0.5% to 3% on payments made by governmental institutions and agencies, including government institutions and decentralized and autonomous agencies, to individuals and legal entities for the purchase of goods and services in general, not performed as an employee, as a payment on account.

Payments for telephone services made by government institutions and agencies, including state decentralized and autonomous institutions will continue to be exempt from this tax .

The National Treasury is in charge of performing the described withholdings, before making payments on the purchase of goods and services in general.

The withholding to the earnings obtained through sports betting agencies and lottery will be the following scale:

Awards from	Withholding Tax
RD\$100,001 to RD\$500,000	5%
RD\$500,001 to RD\$1,000,000	10%
More than RD\$1,000,000	15%

Additionally, the Law establishes a withholding tax of 3% on earnings from slot machines as a final payment.

### **Simplified Tax Regime for Casinos and Slot machines games**

A simplified tax regime for the payment of income tax is established, which would be five percent (5%) on transactions or gross sales of slot machines in operation and legally installed, regardless of geographic location, and at the same time established a simplified tax regime for the income tax payment from casinos based on the number of tables in operation.

### **Lottery seats**

Establishes flat tax of thirty-five thousand pesos (RD \$ 35,000) annually to the lottery gambling establishments.

This tax will be paid monthly to the Tax Administration within the first ten days of each month, one-twelfth (1 / 12) of the amount of RD\$ 35,000 established. This amount will be indexed /adjusted annually according to the consumer price index (CPI) published by the Central Bank.

In addition to this tax, the lottery seats will pay a monthly 1% tax of gross sales or operations and the amount of two hundred thousand pesos (RD\$ 200,000) for registration or initial payment on operations.

Since the enactment of this law, lottery establishments are subject to compliance with formal duties under the Tax Code and any breach of these obligations will be sanctioned under the provisions of Title I of the Code.

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### **Sports betting establishments**

The sports betting parlors located in the country must pay an annual tax per transaction according to their location :

- Those in the metropolitan areas the National District, Santo Domingo province, San Cristobal, Santiago de los Caballeros, San Francisco de Macoris, Puerto Plata and La Vega will pay two hundred and twenty-five thousand pesos annually (RD\$225,000.00)
- The remaining ones located in any other geographical point of the country will pay one hundred and fifty thousand pesos annually (RD\$150,000.00)

This tax will be paid monthly to the Tax Administration within the first ten days of each month, one-twelfth (1 / 12) of the amount established.

In addition to this tax, sports betting parlors will pay a monthly 1% tax of gross sales or operations and the amount of five hundred thousand pesos (RD\$500,000) for the registration or initial payment on operations.

Each of these amounts will be indexed annually according with the consumer price index (CPI) published by the Central Bank.

### **Taxes on the organization of telephone games and internet**

The law sets a monthly tax payment based on 10% of transactions or gross sales from all telephone games and those made online, without taking into consideration the location where the activity takes place.

This tax will be paid to the Tax Authorities during the first ten (10) business days following the month in which the obligation was generated, leaving the owners of the games subject to the provisions of the Tax Code and to comply with formal duties in relating to tax on income and other taxes.

These taxes apply without prejudice of the administrative rates that are currently perceived by the various institutions under licenses or permits.

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