

Organic Law for Productive Promotion, Investment Attraction, Employment Generation and Fiscal Stability and Balance.

Supplement - Official Registry No. 309 - August 21, 2018

SUMMARY:

1. Tax Incentives: >>>

INCOME TAX EXEMPTION

NEW INVESTMENTS IN PRIORITIZED INDUSTRIES

AGRICULTURE, FRESH, FROZEN AND PROCESSED FOOD
AGROFORESTRY AND FINISHED PRODUCTS
METALLURGY
PETROCHEMISTRY AND OLEOCHEMISTRY
PHARMACEUTICS
TOURISM, CINEMATOGRAPHY, AUDIO-VISUALS, INTERNATIONAL EVENTS
RENEWABLE ENERGY (INCLUDING BIOENERGY AND ENERGY FROM BIOMASS)
FOREIGN TRADE LOGISTIC SERVICES
BIOTECHNOLOGY AND APPLIED SOFTWARE
SERVICE EXPORTS
DEVELOPMENT OF SOFTWARE AND HARDWARE SOLUTIONS, DIGITAL INFRASTRUCTURE, IT SECURITY AND ONLINE SERVICES
ENERGY EFFICIENCY
SUSTAINABLE MATERIALS AND CONSTRUCTION TECHNOLOGY
MANUFACTURING, AGRICULTURAL AND AGRICULTURAL RELATED
IMPORT SUBSTITUTION AND EXPORT PROMOTION

- 12-year exemption period on income tax and its advanced payment for new productive investments made in the following 24 months, outside the urban areas of Quito and Guayaquil.
- 8-year exemption period for new investments made within the urban areas of Quito and Guayaquil.
- Exemption applies for new and existing companies.

NEW INVESTMENTS IN BASIC INDUSTRIES

COPPER AND/OR ALUMINUM SMELTING AND REFINING
METALLURGY AND FLAT STEEL PRODUCTION
HYDROCARBONS REFINING
PETROCHEMISTRY
CELLULOSE
CONSTRUCTION AND REPAIR OF MARITIME VESSELS

- 15-year exemption period on income tax and its advanced payment.
- 5 additional years on tax exemption for investments made in the country's border regions.



TAX EXEMPTION ON FOREIGN CURRENCY OUTFLOW (ISD)



New productive investments made through an investment contract, are eligible for ISD exemption for foreign payments on the following:

- Imported assets and raw materials.
- Dividends distributed by local or foreign companies established.
- For foreign financing the benefits of the general policy are kept the same.

PROFIT REINVESTMENT

For the purpose of dividends' distribution, international transactions are exempt from ISD tax as long as the 50% of the company's profits are reinvested.

Such dividends are exempted from Income Tax.

Applicable as long as the company notifies its shareholding structure.

The company shall increase its capital.

Not applicable for the financial services, prioritized or strategic industries.



TERMS AND CONDITIONS FOR INCENTIVES IMPLEMENTATION

- The investment must be made in the following 24 months.
- All exemption periods begin once the company starts generating income due to a new investment.
- Exemption for existing companies will be proportional to the new investment.
- The transfer of assets between related parties is not considered a new investment.
- For investments coming from tax havens, the benefit applies as long as corporate information is transparent.
- At the end of the period, the President may cancel or extend the incentives for 24 additional months.



SUMMARY OF EXEMPTIONS FOR NEW INVESTMENTS

TAX	Exemption period	Industries	Location	Remarks
IR*	12	Prioritized (Organic Code of Production COPCI)	Outside urban areas of UIO/GYE	
IR*	8	Prioritized (Organic Code of Production COPCI)	Urban areas within UIO/GYE	
IR*	15	Basic Industries	National level	
IR*	20	Basic Industries	Country border areas	
IR*	15	Quito y Guayaquil	Country border areas	
IR*	15	New productive investments	Within Special Economic Development Zones (ZEDES)	To be executed in the following 5 years
IR*	20	Tourism	Manabí and Esmeraldas provinces	To be executed in the following 5 years
IR*	10	Industrial, logistics, tourism, and Technology / Innovation	Within ZEDE	Additional 10 years with a 10-point IR reduction
ISD**	Depends on contract term	New productive investments	National level	Additional 10 years with a 10-point IR reduction

*IR: Income Tax
**ISD: Foreign Currency Outflow Tax



INCOME TAX REDUCTION

10% reduction on Income Tax when profits are reinvested in prioritized programs related to sports, culture, science, technology and innovation, approved by the National Secretary of Higher Education, Science, Technology and Innovation of Ecuador (SENESCYT).

- 8% reduction on income Tax (IR) for other programs.
- Costs and expenses incurred in advertising and sport sponsorship, in benefit of the Strategic Plan for Sport Development.



INCOME TAX ON ALIENATION OF SHARES

- Sole income tax with a progressive tax rate for profit generated from the alienation of shares.

EXCESS FROM	UP TO	TAX %
0	20.000	0%
20.001	40.000	2%
40.001	80.000	4%
80.001	160.000	6%
160.001	320.000	8%
320.001	above	10%

2. Special Zone for Economic Development (ZEDE) >>>



Exemption on income Tax and its advance payment for 10 years once operational revenues are generated.



An additional 10-point deduction on Income Tax, for 10 years starting from the end of the exemption period.

3. Income Tax Advance Payment >>>



- The previous policy on the income tax advance payment will be applied, eliminating the minimum tax modality currently used.

4. Vat - Value Added Tax (Iva) >>>



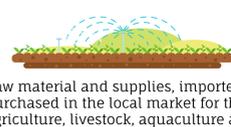
For the following goods and services (additional to the existing ones)



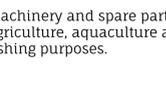
Electric vehicles for private use, public transport and cargo.



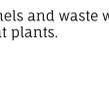
Batteries, chargers, chargers for charging stations, for hybrid and electric vehicles.



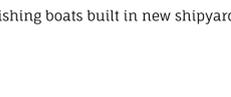
Raw material and supplies, imported or purchased in the local market for the agriculture, livestock, aquaculture and fishing industries.



Machinery and spare parts for agriculture, aquaculture and fishing purposes.



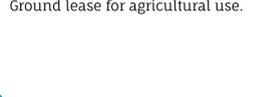
Solar panels and waste water treatment plants.



Fishing boats built in new shipyards.



Services for social housing projects qualified by the Ministry of Housing and Urban Development (MIDUVI).



Ground lease for agricultural use.



Life insurance in credits for several segments and prepaid medical services. Health and life insurance and reinsurance, medical assistance, personal accidents and compulsory insurance for traffic and agriculture-related accidents.

5. Vat tax refund >>>



- Purchase of materials for the construction of social housing projects qualified by MIDUVI.
- Audio-visual, television and cinematography production: 50% refund of VAT Tax paid in development expenses, pre and post-production.
- For service exporters according to the regulation of this law.

6. Foreign currency outflow tax (isd) >>>



- Exemption on international transactions for public or private financial intermediaries or any other type of institutions operating in international markets, duly approved by Ecuadorian authorities, as long as the funds are allocated for microcredits or productive investments.
- ISD refund for the purchase of raw materials, supplies and capital goods used for service exports.
- ISD refund for the purchase of raw materials, supplies and capital goods used for goods exports.

Prove the foreign currency inflow

7. Investment contracts >>>

ARBITRATION

Is mandatory for investment contracts above USD 10MM.

ARBITRATION RULES TO BE FOLLOWED

- UNCITRAL Rules
- ICC Rules
- Inter-American Commercial Arbitration Commission (CIAC)



- Incentives provided in this Law will be included in investment contracts signed and approved during the year 2018.
- For contracts approved before Decree No. 252 of December 22, 2017, Income Tax then valid will be recognized.

8. Incentives For Tourism >>>



- Special Economic Development Zone (ZEDE) for tourism.
- 20-year Income Tax exemption for MSMEs working on community and associative tourism.
- Refund of ISD paid in commissions of incoming tourism services.
- National Fund of Tourism Management to finance tourism promotion and management projects.
- 100% additional deduction of costs and expenses incurred in tourism and advertising for incoming tourism.

9. Real State Investment >>>

- Exemption on Income Tax (IR) for companies, collective funds or trust funds with exclusive economic activity in real estate investment: gains, returns or net profits allocated among shareholders or quota holders, as long as:
 - Total gains or profits are distributed.
 - Shares or securities registered in the public registry of the stock market.
 - At the end of the fiscal year, at least 50 shareholders or quota holders (none with more than 30%) are held.
 - The beneficiary holds the investment for longer period than 360 days.
- Sales revenue, or share transfer, or rights representing the capital, of the companies or funds dedicated to these activities are also exempt from income tax.

10. Public-Private Partnerships (PPP) >>>

- **Attributions of the Committee on Public-Private Partnerships:**

To approve projects under request of the delegating entity of the Central Government and Local governments (GADS) (provided that the Project has incentives from the PPP Law).

- The delegating entity may include in the specifications that the structuring needs to be carried out by a specialized entity with charge to the future successful bidder.

- PPP's in Strategic Sectors are feasible, according to the special laws of each sector.
- For PPP projects, it is possible to establish fund raising and management trusts, from activities related to such projects.

