

REGULATION ON THE LAW OF PRODUCTIVE DEVELOPMENT

MINISTRY OF PRODUCTION,
FOREIGN TRADE, INVESTMENT AND FISHERIES



DEFINITIONS

NEW INVESTMENTS

- New productive assets
- Lands and assets that are necessary for the project



PLACE OF THE INVESTMENT FOR THE INCENTIVE'S APPLICATION

The place of the investment prevails (according to the RUC-ID Tax) over or under the legal and main domicile



Micro Enterprises

Sales or annual gross income equal or less than USD\$300.000
1-9 employees



Small Companies

Sales or annual gross income between USD 300.001 and USD \$1,000,000
10-49 employees



Medium Companies

Sales or annual gross income between USD \$1,000,001 and USD \$5,000,000.
50 -199 employees



Large Companies

Sales or annual gross income greater than USD\$5,000,001

INVESTMENT CONTRACTS



For the subscription of an Investment Contract, the project must classify in one of the following:



PRIORITIZED SECTORS



BASIC INDUSTRIES



STRATEGIC SECTORS



COMMERCIAL ACTIVITIES THAT GENERATE ADDED VALUE

**The Minimum amount of investment
USD \$1.000.000**

CONDITIONS FOR ACCESS TO INCENTIVES



EMPLOYMENT GENERATION

New companies:

- They will be categorized according to income: micro, small, medium and large.
- They will have an equivalent period from its creation to the generation of income to gradually create the minimum of its category.

E.g.: Medium company established in September 2018.

Years	Established 2018	Execute Investment		2021 Medium	2022 Medium	2023 Medium
		2019	2020			
Operational Income	0	0	0	\$1'225.000	\$1'500.000	\$2'000.000
<div> <div>3-year period</div> <div>A gradual increase in employment</div> </div>						
Employment Generation	0	1	1	10	20	50

- The verification of compliance of direct employment is carried out at the end of the investment period, in accordance with the schedule.
- Exceptionality: CEPAL can exempt compliance of this condition for specific sectors, sub-sectors, and cases.
- Companies must calculate the annual average of permanent workers:
Annual average = Total of affiliated workers / 12 months



Existing companies:

- **MiPyMes:** i(micro, small and medium companies): increase an additional employee to the one registered in the previous annual period of the investment and maintain it throughout the period of the tax benefit:

E.g.1: Investment of USD \$2'000,000

Yearst	2017	2018	2019	2020
Investment schedule	0	\$500.000	\$500.000	\$1'000.000
Employment	15	15	15	16

- **Large companies:** Increase the payroll by 3% compared to the fiscal year prior to the investment and maintain it throughout the tax benefit period.

E.g.2: Investment of USD \$6'000,000

Years	2017	2018	2019	2020
Investment schedule	0	\$2'000.000	\$1'000.000	\$3'000.000
Employment	150	150	150	155 (3%)



RATE OF INCOME TAX FOR EXISTING COMPANIES

RATE OF INCOME TAX FOR EXISTING COMPANIES THERE ARE TWO METHODS TO DETERMINE THE RATE

- **Separate cost center:** differentiating assets, liabilities, costs, expenses and income from the new investment, the resulting profit is 100% exempt from income tax.
- **Exemption formula:** the reduction is applicable to the income tax rate:

Income tax rate reduction

$$\frac{\text{New productive investment (NIP)}}{\text{Total gross revalued assets}} \star \text{Global income tax rate}$$

CONDITIONS

If the income tax reduction is greater than 10 points, an investment contract must be signed and meet special conditions that CEPAI will establish by resolution.



E.G. 1: PROPORTIONAL EXEMPTION OF INCOME TAX FOR EXISTING COMPANY:

Investment schedule		
Year	2019	2020
New productive investment	\$2'270.000	\$2'000.000

	Year 2019	Year 2020 (cumulative)
New productive investment	\$2.270.000,00	\$4.270.000,00
Total fixed assets re-evaluated	\$9.937.794,85	\$12.207.794,85
Current income tax rate	25%	25%
Reduction in applicable rate	6%	9%
New income tax rate	19%	16%
Tax base fiscal year	\$700.000,00	\$735.000,00
Income tax incurred	\$135.026,34	\$119.478,56
SAVINGS	\$39.973,66	\$64.271,44



E.G. 2: PROPORTIONAL EXEMPTION OF INCOME TAX FOR EXISTING COMPANY, WITH AN INVESTMENT CONTRACT:

Investment schedule			
Year	2018	2019	2020
New productive investment	\$314.500,00	\$3.689.100,00	\$580.000,00

	Year 2018	Year 2019	Year 2020
New productive investment (cumulative)	\$314.500,00	\$ 4.003.600,00	\$ 4.583.600,00
Total fixed assets re-evaluated	\$5.797.466,70	\$ 6.111.966,70	\$ 9.801.066,70
Current income tax rate	22%	22%	22%
Reduction in applicable rate	1,19	14,41	10,29
New income tax rate	20,81%	7,59%	11,71%
Tax base fiscal year	\$400.000,00	\$450.000,00	\$500.000,00
Income tax incurred	\$83.226,19	\$34.150,76	\$ 58.557,03
SAVINGS	\$4.773,81	\$64.849,24	\$ 51.442,97



EXEMPTION FROM PAYMENT OF CURRENCY OUTFLOW TAX (ISD) FOR THE IMPORT OF CAPITAL GOODS AND RAW MATERIAL

These values must be related to the investment schedule.

DETAIL OF THE IMPORTED GOOD	Tariff Subheading	2018	2019	2020	TOTAL CIF	ISD VALUE EXEMPTED
CAPITAL GOODS						
Machinery ABC	8440100000	\$750.000			\$750.000	\$37.500
Machinery DEF	8442509000		\$150.000	\$150.000	\$300.000	\$15.000
Total CAPITAL GOOD		\$750.000	\$150.000	\$150.000	\$1'050.000	\$52.500
RAW MATERIALS						
Supply XYZ	4802.57.90.00	\$500.000	\$200.000	\$400.000	\$1'000.000	\$50.000
TOTAL RAW MATERIAL		\$500.000	\$200.000	\$400.000	\$1'000.000	\$50.000
TOTAL IMPORTS		\$1'250.000	\$350.000	\$550.000	\$2'050.000	\$102.500

CURRENCY OUTFLOW TAX (ISD) AND INCOME TAX (IR) EXEMPTION FOR REINVESTMENT OF PROFITS



- Capital increase must be made until December 31st of the same year in which the benefit will be applied.
- Reinvestment of profits must be at least 50% for the acquisition of productive assets.
- ISD Exemption applies on dividends of the Ecuadorian beneficial owners.



DIVIDENDS FROM REAL ESTATE INVESTMENTS

For companies, collective funds or trust funds whose exclusive economic activity is the investment in real estate assets, IR exemption will be applied in: profits, returns or net profits that are distributed to shareholders or quota holders, as long as:



The total profits or benefits are distributed.



Quotas or securities are recorded in the public registry of the stock market.



At the end of the fiscal year, at least 50 shareholders or quota holders (none of them with more than 30%).

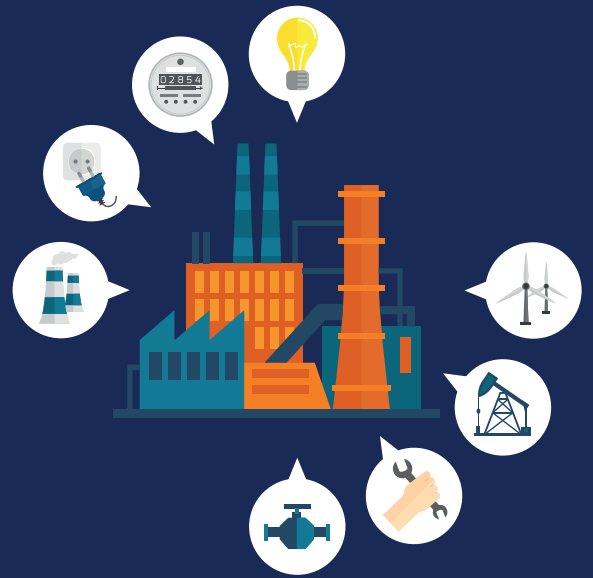


The beneficiary holds the investment for a period longer than 360 days.

Income tax from sales revenues or transfer of shares or rights representing capital, will be exempted for companies or funds dedicated to such activities.

ECONOMIC DEVELOPMENT SPECIAL ZONES (ZEDE)

- Income tax and advance income tax payment will be exempted for 10 years, and 10 points reduction for an equal period.
- Requirements for administrators and operators are simplified.
- Redefinition of a declared ZEDE space is allowed.
- Administrators and operators can be related parties for logistics and tourism ZEDEs.
- For a minimum period of 20 years, the authority may determine a long term.
- To become a ZEDE, Free Zones are not required to comply with such criteria.



INCOME TAX AND ADVANCE INCOME TAX PAYMENT EXEMPTION FOR TOURISTIC ENTREPRENEURSHIP

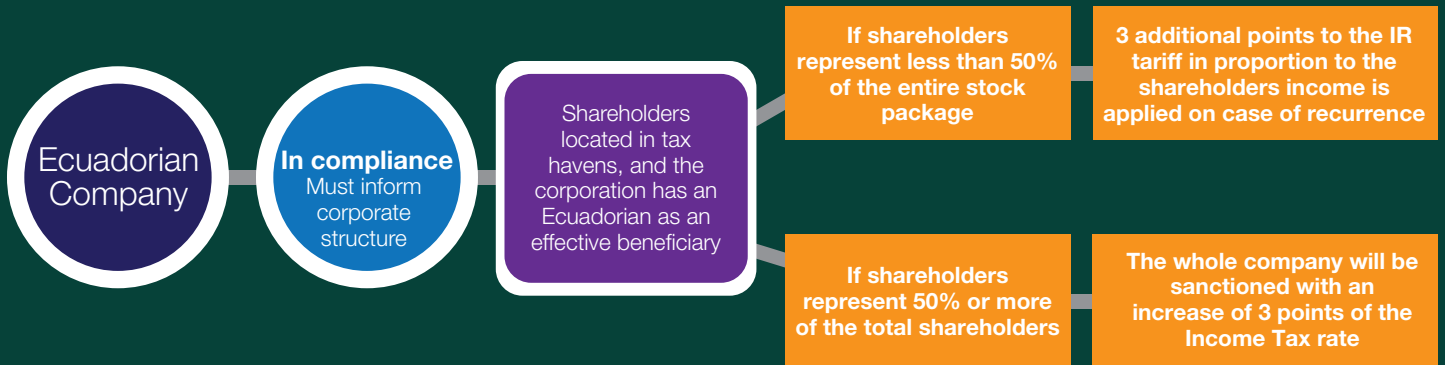


- Applicable to Small Enterprises (MIPYMES) community or associative touristic entrepreneurship.
- Register at the Ministry of Tourism cadaster.
- Income Tax Exemption since profits are generated.



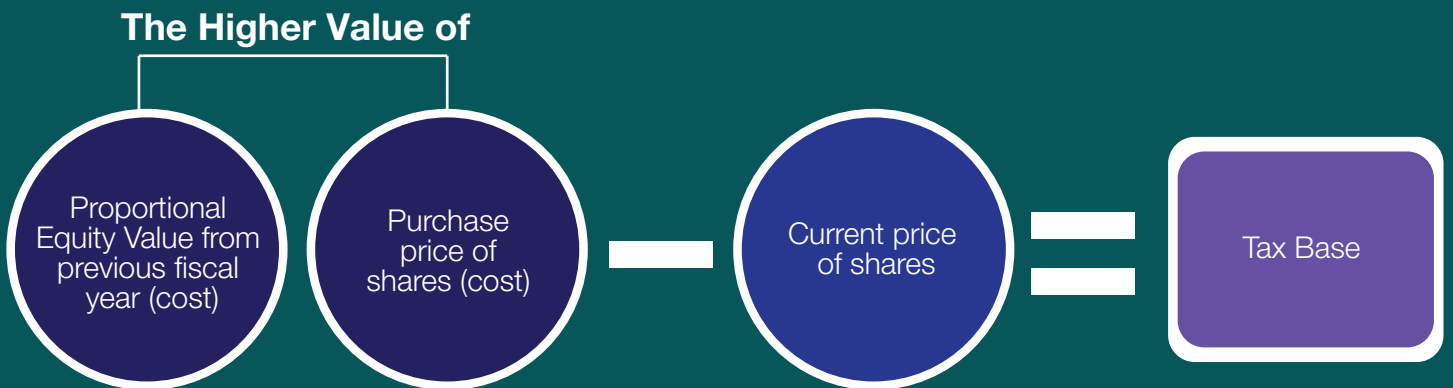
INCOME TAX CALCULATION FOR TAX HAVENS

The 3 additional points are applied to the rate that results from the application of the incentives



Must inform corporate composition: it is mandatory to inform up to the last natural person of the ownership of shares or participations, the breach may be total, partial, or inaccurately.

HOW TO DETERMINE THE PROFITS FOR THE SALE OF SHARES



- In the case of shares or participations acquired through inheritance or donation, the cost value will be the EC.
- The EV does not consider the undistributed profits, since these are not part of the seller's shares profits but from the acquirer.
- If the sale is through the Stock Exchange, the assignor is eligible for the exemption of two basic fractions taxed at a 0% rate.





EXEMPTION OR REDUCTION CASES ON THE ADVANCE INCOME TAX PAYMENT (IT)

When it is determined that the income tax payable is less than the amount paid in the advance income tax payment, then the taxpayer may request the refund by requesting an excess payment or claim for the undue payment.

LATEST INFORMATION ON THE VALUE ADDED TAX (VAT)

- The benefits will only be applicable as of the entry into force of the Productive Development Law (Transitory provision)
- The tax credit for VAT paid on local purchases and imports of goods and services can be used for up to 5 years.
- The previous VAT credit does not expire.
- For new companies, the term of the loan is from the moment the operating income is generated.
- VAT refund to regular exporters can be automatically determined by the coefficients (SRI will be defined within 60 days, through a computer system in 90 days – transitory regulation)



Service exporters have access to VAT refund of used goods a dedicated to providing exported services when:

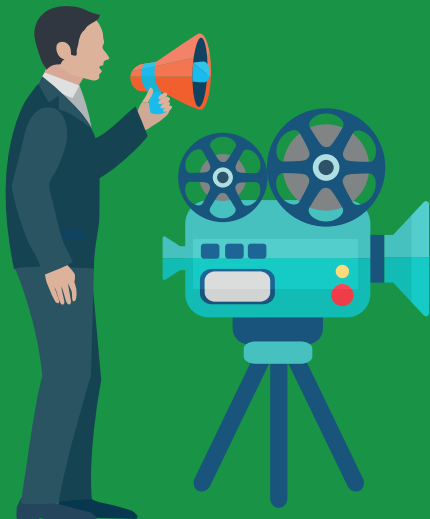
1. Payment of services is verified through foreign currency from abroad (wire-transfers).
2. Comply with the regularity requirements defined by the Taxation Policy Committee (within 90 days, as per de transitory regulation).
3. If the company has local and foreign sales, the refund is proportional to the exports.

REFUND OF 100% VAT PAID ON SOCIAL HOUSING CONSTRUCTION PROJECTS



- Local purchases of goods and services.
- Refund in 90 days.
- The maximum amount to be refunded will be established in the project's budget.

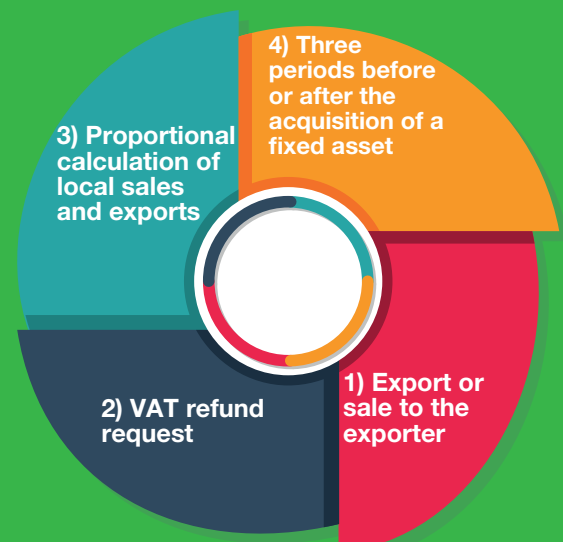
REFUND UP TO 50% OF THE VAT PAID IN AUDIOVISUAL PRODUCTION, TELEVISION AND CINEMATOGRAPHY ACTIVITIES



- Economic activity previously registered in RUC (ID TAX).
- Development, pre-production and post-production expenses.
- Refund in 90 days.
- Does not apply to companies involved in transmission and programming.

VAT REIMBURSEMENT IN THE ACQUISITION OF FIXED ASSETS

- The proportionality of the factor is incorporated into the VAT refund on cyclical production exports, for exporters and their suppliers.



VALUE ADDED TAX (VAT) 0%



Green Charging stations for electric cars

Refers to the fast charging stations for vehicles with zero emission, electric or hybrid motors.



Construction of new fishing vessels

Fishing vessels of any kind, designed for fishing activities in the open sea or inland waters.

VAT EXEMPTION FOR ELECTRIC MOTOR VEHICLES, INTENDED FOR PASSENGER IN PUBLIC TRANSPORTATION.



- The transit authority grants permission for the application of the incentives.
- Only applies to the first transfer.
- You can be tax-free as long as the use remains the same or it has been 5 years since its imports or acquisitions

REFORMS IN THE REGULATION TO THE APPLICATION OF THE CURRENCY OUTFLOW TAX (ISD)



ISD Refund in export activities:

- It is applied to the exporters of goods and services, defined by the CPT within 90 days.
- Does not apply to oil activities or those related to non-renewable natural resources.
- Exemption from payment of ISD in the purchase of: raw materials, inputs and capital goods.
- The refund is proportional to local sales value and exports.
- For the application, the company must attach:
 - Purchase invoices.
 - A local sales and exports report.
 - A report of income of foreign currency due to exports (exports revenues)
- The exporters of goods can benefit from the return by coefficients (SRI-Internal Revenue System in Spanish- will determine them within 60 days – as per transitory disposition)

NEW INVESTMENT MODEL: INTERNATIONALIZATION OF COMPANIES

Those who acquire foreign credits to invest in the establishment of businesses abroad, increasing the demand for national production, generating employment and returning currency, could sign an investment contract.



NEW PRIORITIZED SECTORS



Agriculture

It includes all the agricultural chain, agroindustry, livestock, industrial livestock, aquaculture, mariculture, and fishery.



Tourism

It includes tourism real estate, cinematography, audiovisuals, and international events.



Software and Hardware development

It covers projects of Online services, digital infrastructure, digital products and content, as well as IT security.



Exports of Services

Terms and conditions defined by the Taxation policy committee.



Energy efficiency

Companies for the optimization of processes and energetic systems.



Supplies and construction technology industries

Companies focused on the production and trade of sustainable construction materials.



Industry, Agroindustry, and agro associative sector

Transformation of raw material on a large scale (assembly) and activities for the industrialization of agricultural products.

INVESTMENT CONTRACTS



Procedure for the approval of investment contracts

The procedure for the approval of investment contracts has been simplified



Monitoring of obligations assumed in investment contracts

- Compliance of the obligations can be verified at any time.
- Information regarding the execution of the investment, employment and other conditions of the contract will be required. The Investor has a period of 15 days.
- A preliminary report with recommendations will be prepared within 30 days.
- A statement from the competent Ministry may be requested within a period of 10 days.
- According to the results, the process could be archived or a sanctioning file could be initiated.



INVESTOR'S VISA

Allows multiple entries and exits for two years and is renewable for the same period.

Investor's Visa

Investment can be proven by presenting:

- AI legal title, policy or certificate of appointment for at least 730 days (at least 100 Minimum wage -MW)
- A legal certificate of the real estate property registration (at least 100 MW)
- Ownership of shares (at least 100 MW)
- Administrative contract subscribed by the State, of any nature.

Visa for investor representative with a minimum capital of 100 MW

- Appointment of an Ecuadorian company or branch enrolled and registered at the Companies Superintendence (Superintendencia de compañías del Ecuador)
- Certificate of appointment legalized or apostilled, registered in the Superintendence.
- Commercial representative: certificate issued by a national or foreign legal entity, apostilled or legalized.

Ship crew visa

- Work contract or sponsorship.
- Fishing permits or related.
- A document that certifies legal stay in the vessel.

BENEFITS IN FOREIGN TRADE CUSTOMS BENEFITS



A Legal or natural person that promotes the country image, authorized by the governing body in tourism, may benefit from the temporary admission regime with re-exportation in the same condition for the development of:

- Sports, cultural and other events that promote Ecuador as a tourism destination.
- Ships and aircrafts, for tourism purposes.
- Filming of movies.
- Conventions and trade shows.
- Other related activities, determined by the governing authority in tourism.

PPP (Public and Private Partnerships) REFORM: FINANCING OF THE STUDIES FOR THE PROJECT STRUCTURE



Regulations have been applied so that the costs of the studies are paid for the future contractor or private manager.