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Tax Law

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Income tax: The Dominican corporate income tax is levied at the flat rate of 27% on profit after allowable tax deductions. The basis for determining taxable income is locally sourced income and foreign source income derived from investment and financial gains. There are very few differences between statutory profit and taxable profit, apart from various adjustments required by tax law and the use of existing loss carryforwards (which are five years). The most common deductions allowed are depreciation, tax expense, interest expense and management and service fees/royalties. The last two are deductible if they are in accordance with the arms- length principle and withholding taxes have been paid. The DR Tax Administration has issued safe harbor rules for thin capitalization purposes.

Capital gains: Capital gains are subject to income tax at a 27% rate. The basis for determining a capital gain or loss is the purchase cost of the capital asset adjusted by local inflationary rules, which is deducted from its sales price or transfer value. The tax basis is decreased by depreciation and other reduction concepts and increased by improvements. Capital losses which exceed capital gains in a given period may be credited against future capital gains.

Asset tax: An Asset's tax is levied at a 1% rate over the assets reflected in the balance sheet, after depreciation and other deductions have been made. Stock investments in other companies and rural real estate assets are exempted. Payment of the asset tax is divided in two quotas and the same may be credited with the income tax payable. In the event that the liquidated amount for income tax is equal or higher to that of the asset's tax, no asset tax shall be paid.

Withholding Taxes: The payment of dividends or earnings distribution is subject to a definite 10% withholding tax. Payments abroad of Dominican sourced income are subject to withholding tax at a 27% rate, with the exception of interest which is subject to a 10% withholding tax. Payments to individuals of taxable income should be subject to withholding taxes at rates ranging from 2% to 25% over the gross income.

Tax on the Transfer of Industrialized Goods and Services: Within the framework of business activity, it is important to note that the import and supplies of goods and services within the territory of Dominican Republic give rise to ITBIS (similar to the value-added tax [VAT]) at rates that vary from 8% to 18% while specific goods and services are exempt. Exports of goods are cero taxed as well as services rendered to non-domiciled entities which do not affect Dominican income and are consumed outside Dominican territory. The ITBIS paid at import and to local providers in the acquisition of goods and services, and the excess may be carried forward to the following monthly fiscal periods. Exporters which have ITBIS credit for more than 6 months may request a reimbursement or tax compensation.

Issuance tax: The tax on the issuance (and the increase) of shares of a DR company is 1% on the amount contributed.

Tax treaties: The DR has double taxation agreements with Canada and Spain and a tax information treaty with the U.S.

Please consult Arthur & Castillo (AC Law) on issues related to Tax Law in Dominican Republic at info@aclaw.com. For information about our services, please call us at: +1.809.472.2222 or International +1.305.809.7020.

Note: This is not legal advice; it is intended to provide information of general interest about current legal issues. Arthur & Castillo.