

Guide to do business in

ECUADOR

Chandrawat
& Partners



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Ecuador is a country located in South America, bordered by Colombia to the north, Peru to the east and south, and the Pacific Ocean to the west. Its capital is Quito, and its largest city is Guayaquil. The official language is Spanish, and the currency is the US dollar. It has a diverse economy that relies heavily on oil exports but also includes other industries such as agriculture, manufacturing, and tourism. Legal entities incorporated in Ecuador have full access to all available sources of financing. Financial entities are being restructured in order to guarantee the stability of the financial system. Foreign investment is especially encouraged in areas such as forestry, tourism, oil production, mining, and the export of non-traditional products.

ADVANTAGES

Ecuador offers a number of advantages for those interested in doing business in the country:

Strategic location

Ecuador is strategically located in South America, making it a gateway to the region's markets. The country has access to major international trade routes, making it an ideal location for businesses looking to expand their reach.

Abundant natural resources

Ecuador has abundant natural resources, including oil, minerals, and agricultural products. This makes it an attractive destination for businesses in industries such as mining, agriculture, and energy.

Access to a large market

Ecuador has a population of around 17 million people, providing businesses with access to a large and growing market. The country also has a growing middle class, which is increasing demand for consumer goods and services.

Business-Friendly Environment

Ecuador has made significant progress in recent years in improving its business environment. The government has implemented a number of reforms aimed at reducing bureaucracy and improving the ease of doing business.

Favorable Investment Climate

Ecuador offers a number of incentives for foreign investors, including tax breaks and exemptions and streamlined registration processes. The government has also made significant investments in infrastructure and education, creating an environment conducive to business growth.

Cost Advantage

Ecuador offers a cost advantage compared to other countries in the region, with lower labour costs and lower operating costs in general. This makes it an attractive destination for businesses looking to minimize costs while still accessing a growing market.

Corporate tax

The corporate tax rate in Ecuador is a flat 25%. This rate applies to both resident and non-resident companies and to all types of income, including income from capital gains, dividends, and interest.

Value Added Tax ("VAT")

The Value Added Tax (VAT) in Ecuador is a tax on the consumption of goods and services, and it is known as Impuesto al Valor Agregado (IVA) in Spanish. The standard VAT rate in Ecuador is 12%, which applies to most goods and services.

However, certain goods and services may be subject to a reduced VAT rate of 0% or 5%. For example, basic food items, medicines, and certain educational services are subject to a 0% VAT rate. Meanwhile, certain goods, such as books, newspapers, and magazines, are subject to a reduced VAT rate of 5%.

In addition to the standard VAT rate, there is a special VAT regime for small businesses that have annual sales of up to \$150,000. These businesses are subject to a reduced VAT rate of 10%.

Individual tax

In Ecuador, the Personal Income Tax Rate is a tax collected from individuals and imposed on different sources of income like labour, pensions, interest, and dividends. Revenues from the personal income tax rate are an important source of income for the government of Ecuador. The tax rates for individuals in Ecuador for the year 2023 are as follows:

- Income up to \$11,290: 0% tax
- Income between \$11,291 and \$14,100: 5% tax on the excess over \$11,290
- Income between \$14,101 and \$17,900: \$285 plus 10% tax on the excess over \$14,100
- Income between \$17,901 and \$21,700: \$685 plus 12% tax on the excess over \$17,900
- Income between \$21,701 and \$35,500: \$1,165 plus 15% tax on the excess over \$21,700
- Income between \$35,501 and \$50,000: \$3,615 plus 20% tax on the excess over \$35,500
- Income over \$50,000: \$8,615 plus 25% tax on the excess over \$50,000

Under the Companies Act in Ecuador, there are several types of companies that can be established. These include:

Limited Liability Company (Sociedad de Responsabilidad Limitada or SRL)

This is the most common type of company in Ecuador, which provides limited liability protection to its shareholders. These companies must have a minimum of 2 partners and can have up to, but not exceeding, 15. The minimum capital required to start an LLC is USD \$400. The money is divided into installments, and at least 50% must be paid upon forming the entity, with the rest needing to be paid in the following 12 months.

Stock corporation (Sociedad Anónima or SA)

This type of company issues shares of stock to its shareholders, who have limited liability protection. Incorporating a 'Sociedad Anonima' requires a minimum of 2 shareholders, and there is no maximum limit. The minimum required share capital for a corporation is \$800 USD. The share capital of a corporation depends on the contribution the shareholders make. It is divided into shares that can be freely transferred, sold, or inherited, depending on the conditions specified in the bylaws.

General partnership (Sociedad en Nombre Colectivo or SNC)

This type of company is formed by two or more partners who have unlimited personal liability for the company's debts and obligations.

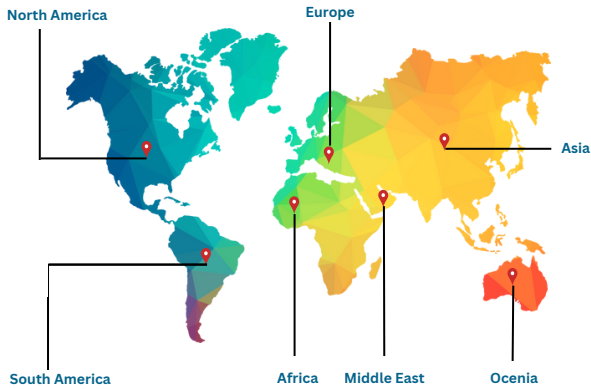
Limited partnership (Sociedad en Comandita Simple or SCS)

This type of company has two types of partners: general partners, who have unlimited personal liability for the company's debts and obligations, and limited partners, who have limited liability protection.

Branch office (Sucursal)

This is not technically a separate type of company but rather an extension of a foreign company's operations in Ecuador. A branch office has no legal personality of its own and is fully controlled by its parent company. The share capital has to be a minimum of USD 2,000. A local legal representative has to be appointed through a notarized Power of Attorney (POA). The Ecuadorian consulate in the country of incorporation has to verify the existence of the main company and approve it. It has no legal personality of its own and is fully controlled by its parent company. The share capital has to be a minimum of USD 2,000. A local legal representative has to be appointed through a notarized Power of Attorney (POA). The Ecuadorian consulate in the country of incorporation has to verify the existence of the main company and approve it.

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Key Contact



Surendra Singh Chandrawat

Managing Partner

✉ surendra@chandrawatpartners.com

Connect Surendra on



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