Productive Development Act

The Organic Law on productive development, inward investment, job creation and fiscal stability and balance was passed on August 21st. The aim of this regulation is to support the productive sector and exports, create employment, encourage private investment and achieve fiscal stability.

The new regulation introduces substantial amendments to laws such as the Organic Domestic Tax Regime Law, the Organic Monetary and Finance Code, the Law for an Economic Reboot, Greater Dollarization and Financial Management Update Law, and the Companies Act, among others*.

The most important measures covered in the Act are as follows:

Interest forbearance. The law allows interest, fines and charges deriving from tax or fiscal obligations to be 100% condoned, excluding those maturing after April 2, 2018 and those corresponding to the 2017 annual tax return. Requirements:
Companies with gross revenues for the latest three tax years greater than USD 5 billion: time limit of 90 days from publication of the Act.
Other contributors: the time limit for meeting their obligations will be two years. These payments will be made by paying out equal monthly dividends of the capital balance; the Tax Code's general rule of an initial 20% payment does not apply.
Reforms to boost the export and tourism sectors
Additional deduction of expenses incurred in commercial promotion. This can be applied on up to 100% of the total value of costs and expenses incurred on promotion and advertising for long-term exporters and in the reception tourism sector.

Rebate of the Foreign Currency Outflow (ISD) Tax for long-term exporters

importing raw materials and capital inputs and goods, provided they can demonstrate the net inflow of foreign currency into the country.

Expansion of the scope of priority sectors exempted from paying Income Tax (IR)

pursuant to article 9.1 of the Domestic Tax Regime. The scope is extended to exports of services, the agricultural sector, oleo-chemicals, energy efficiency, software development and services, industry, agribusiness and associative farming, among others.

VAT and ISD tax rebate

on exports of such services as determined by the Tax Policy Commission.

Income tax exoneration for community and/or associative tourism enterprises.

The exoneration will last for 20 years.
Incentives to inward private investment. Income tax will be waived for new investments in priority sectors defined in the above-mentioned article 9.1 of the Domestic Tax Regime for a 10-year period**. Investments in the industrial sector will also be exempted for between 10 and 15 years***, which can be extended a further 5 years for investments made in cantons in the country's border areas. Furthermore, the Act exonerates new productive investments that sign up to investment contracts from ISD tax.
Support for MSMEs and entities in the popular and solidarity economies The law raises from 1% to 5% the percentage of deductible expenses when calculating the income tax payable by micro, small and medium-sized enterprises investing in technical training and productivity improvements.
Other measures:
Value Added Tax (VAT):

Imports and transfers of inputs from the agricultural, fish-farming and fisheries sector will be zero-tax rated. solar panels; fishing vessels entirely built in a shipyard; components and machinery for agricultural use, fish-farming and small fishing operations, agricultural insurance and land rentals for agricultural use, electric cars, among others.

VAT tax credit: can be used for up to 5 years.

Social housing: VAT rebate for companies developing social housing programs, on the tax paid on local purchases of goods and services used to develop the program and zero-rated VAT on social housing construction services. 50% rebate on VAT: paid on development expenses, pre- and post production on audiovisual, television and film production activities.

Special Consumption Tax (ICE): Electric vehicles for public transport and other goods such as cookers will be zero-tax rated.

Indebtedness ceiling: the law lays down that the balance of public debt may not be higher than 40% of Gross Domestic Product (GDP). Only the National Assembly may change this ceiling.

* Organic Public Sector Firms Act, Organic Planning & Public Finance Code, Mining Act, Organic Human Mobility Act, Hydrocarbons Act, Organic Law in Defense of Labor Rights, Organic Law on the Ending of the 1999 Banking Crisis, National Police Force Social Security Act, the Labor Code, the Companies Act and the Organic Land Transport,Traffic & Road Safety Act.

** Except for those in the urban jurisdictions of Quito and Guayaquil, which will be exempted for 8 years.

*** The exemption period will be 15 years for certain economic sectors such as basic industries, as provided for in the Organic Production, Trade & Investment Code.