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Global Tax Alert

News from EY Americas Tax

Ecuador ratifies Treaty to Avoid Double Taxation with Japan

Ecuador has ratified the Treaty to Avoid Double Taxation with Japan.

The treaty is not in force until final diplomatic notifications are exchanged, which is expected to occur in tax year 2020. When effective, the treaty will apply to the income tax in Ecuador and various taxes in Japan. It also will include a definition for permanent establishment and new withholding tax rates for cross-border payments between Ecuador and Japan, as summarized below.

General information

The treaty will apply to persons who are residents of one or both of the contracting states and will apply to the income tax in Ecuador. It will apply to the following taxes in Japan:

(i) Income tax

(ii) Corporate income tax

(iii) Special income tax for reconstruction

(iv) Local corporate tax

(v) Local inhabitant taxes

Permanent establishment

The term "permanent establishment" means a fixed place of business through which an enterprise wholly or partly carries on its business. The term includes:

(i) A place of management

(ii) A branch

(iii) An office

(iv) A factory

(v) A workshop

(vi) A mine, an oil or gas well, a quarry or any other place of exploration, exploitation or extraction of natural resources

(vii) A building site, a construction, assembly or installation project or supervisory activities connected therewith, but only if the site, project or activities last more than six months

(viii) The furnishing of services by an enterprise through employees or other personnel engaged by the enterprise for that purpose, but only if activities of that nature continue (for the same or a connected project) within a contracting state for a period or periods aggregating more than 183 days in any 12-month period

The term "permanent establishment" does not include the:

(i) Use of facilities to store or display goods or merchandise belonging to the enterprise

(ii) Maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage or display

(iii) Maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise

(iv) Maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or collecting information, for the enterprise

Withholding rates for cross-border payments

The following withholding rates may apply to cross-border payments from Ecuador to Japan:

Income	Withholding rate
Art. 7: Business profit	0%
Art. 10: Dividends	0% / 10%
Art. 11: Interest	0% / 10%
Art. 12: Royalties	0% / 10%
Art. 13: Capital gains	0% /25%

The rates may vary depending on how the income is treated in each transaction.

Elimination of double taxation

In Ecuador, double taxation will be eliminated as follows:

(a) When an Ecuadorian resident derives income that, in accordance with the provisions of the treaty, is taxed in Japan, Ecuador will exempt such income from tax.

(b) When an Ecuadorian resident derives items of income that, in accordance with the provisions of Articles 10, 11 and 12, is taxed in Japan, Ecuador will allow the resident to claim a deduction for the amount of tax paid in Japan.

(c) When, in accordance with any provision of the treaty, income derived by an Ecuadorian resident is exempt from tax in Ecuador, Ecuador may nevertheless, in calculating the amount of tax on the remaining income of such resident, take the exempted income into account.

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