

Global Tax Alert

News from EY Americas Tax

Ecuador's President vetoes second tax reform bill and proposes amendments

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After the Ecuadorian National Assembly recently modified and approved the second tax reform bill proposed by President Moreno, President Moreno vetoed the bill and proposed some amendments to it on 14 December 2019. The National Assembly will have to consider the amendments and may either accept the terms of the veto or reject them.

This Tax Alert discusses certain provisions of the currently proposed tax reform bill, which could be further modified by the National Assembly. The final text will be published in the Official Register.

Thin-capitalization rules

The Ecuadorian National Assembly modified the article proposed by President Moreno, setting the thin-capitalization threshold for cross-border, intercompany and unrelated parties' loans at 20% of income, before mandatory employee profit-sharing, interest, depreciation and amortization. President Moreno's amendments would limit application of the thin-capitalization rules to intercompany loans, because applying the thin-capitalization rules to unrelated parties' loans could affect a company's access to financing. For banks, the threshold would remain at 300% of the entity's equity.

Special consumption tax

The amendments would exempt more agricultural products from the special consumption tax. Also, the amendments would limit the exemption to agricultural products that have minimal production.

Miscellaneous

Under the amendments, the Government would lead internet connectivity projects, instead of private parties.

The amendments also would modify the currency exportation tax that applies to loans whose interest rates are higher than the interest rate established by the Central Bank. Additionally, taxpayers could not deduct interest on these loans for income tax purposes.

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