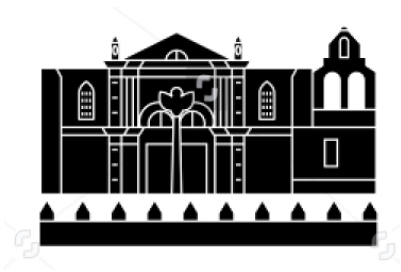




# Doing Business in the Dominican Republic 2022



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# Preface



**Marisol Arcia**

Territory Senior Partner  
PwC Interaméricas

Central America, Panama and the Dominican Republic is an attractive region for investment, where its countries have for years excelled in various sectors such as financial services, information and communications technology, manufacturing and logistics, tourism, among others.

In recent years, the promotion of foreign investment has been one of the main objectives for the governments of Central America, Panama and the Dominican Republic. One of the policies that has seemed to be effective is tax benefits, which many countries in the region have extended in order to attract investment, making us a promising destination for foreign investment to be considered post-COVID-19.

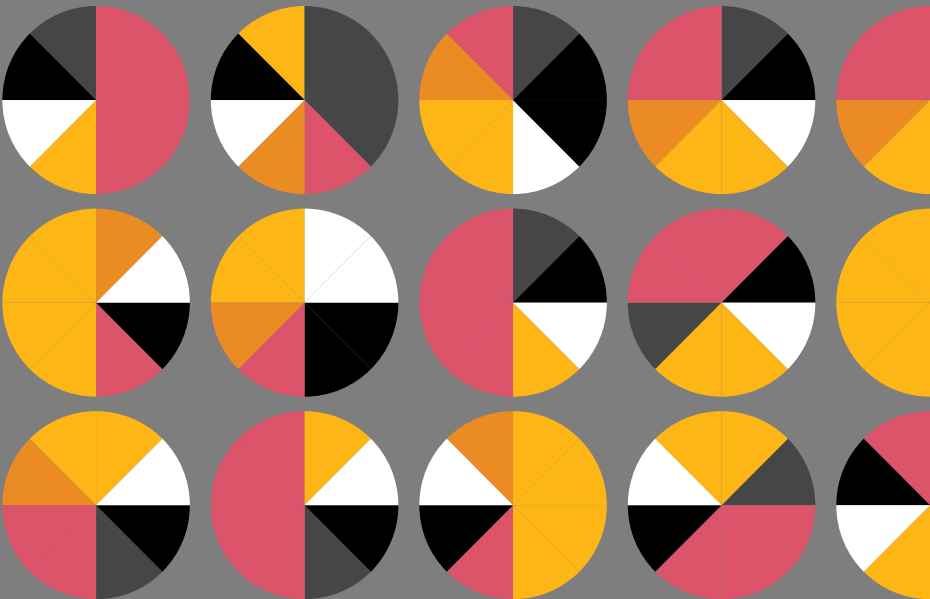
While the U.S. has been the main source of foreign direct investment inflows to the region, other countries are increasing their attention to our region, investing in infrastructure projects that generate new jobs and create optimal conditions to accelerate an economic recovery after the global health crisis.

Our countries are becoming aware and unlocking their potential for sustainable growth and present opportunities for investment in the environment by taking responsibility for better and more efficient use and management of the region's resources.

This guide is designed to provide the necessary information and direction on regulatory compliance issues and considerations for opening a new business, establishing a branch of a multinational company, or any other type of investment in the region.

We hope this Doing Business gives you the stimulus to build a successful business in this region filled with opportunities.

This publication is for general guidance only and should not be construed as professional advice. Should you require further information, our advisors will be happy to assist you on an individual basis.



# Foreword



**Francisco A. Barrios González**

Regional Tax and Legal Leader, Partner  
PwC Interaméricas

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PwC Interamericas is always pleased to offer guidance to all its clients and the business community in their critical decision to do business in the region of Central America and the Dominican Republic. In that unceasing interest of guiding such an important activity, it is an honor for us to publish the sixth edition of the business guide called Doing Business 2022, which

contains relevant information that allows understanding the cultural aspects, the investment climate and the main issues to consider in legal, commercial and tax matters in the region that we have complemented with international standards and the best world practices. We cannot overlook the difficult crisis we have experienced over the past two years, but as ECLAC figures show, Central America and the Dominican Republic are expecting growth in the short term, a fact that enhances the region's strengths and will surely allow us to quickly return to the trends we had in previous years.

Existing business opportunities position Central America and the Dominican Republic as a highly attractive region for investors from around the world, hand in hand with positive GDP growth rates and equally valuable prospects. In recent years prior to COVID-19, growth in our region exceeded the average for all of Latin America and the Caribbean; inflation

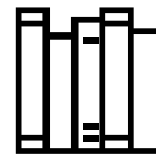
remained in a controlled position, favored by the dynamism of credit to the private sector and the existence of significant government investment. Our geographic position is advantageous and continues to strengthen despite some adverse facts, supported mainly by the easy accessibility to the United States of America, the largest economy in the world and with whom we have a high flow of commercial activity. The region has also awakened the interest of Europe and Asia, with important economic players from those jurisdictions coming forward to open activities and approaching a valuable market.

PwC Interamericas operates in six Central American countries and the Dominican Republic, through an objective program of unique contacts aimed at streamlining your business and providing world-class personalized services, positioning us as the first choice of trusted advisors in most of the negotiations that take place in our region and the world.

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**Thank you very much for thinking of PwC Interaméricas and allowing us to guide your journey through Central America and the Dominican Republic.**

It should be noted that this document was prepared as a general guide and that its content is subject to constant changes given the legal and economic environment of the different countries, so due to the complexity of some specific issues, we recommend you rely on the assistance and accompaniment of professionals from our team specialized in tax, legal and regulatory matters, who will gladly support you taking into consideration the specific circumstances and situations of the matter under study.



## Dominican Republic

From 1916 to 1924, the Dominican Republic was occupied by the United States Armed Forces, when the USA withdrew its troops due to the Harding Plan.

In 1930, Rafael Trujillo came into power and established a dictatorship that ended with his assassination in 1961. In 1963, Juan Bosch was the first democratically elected president, however, he was overthrown after only 7 months. This caused civil unrest, which culminated in a civil war in 1965. As a result, the USA dispatched 42,000 troops to the island in support of antibosch groups, these troops were retired in 1966.

The same year, Joaquin Balaguer won a free election against Bosch. Since then the presidency has changed among three major parties: the Partido Revolucionario Dominicano (PRD), the Partido de la Liberación Dominicana (PLD) and the Partido Reformista Social Cristiano (PRSC).

# Content

## 9 Overview of the country

Climate.  
Population, form of government,  
language, currency.  
Education.

## 10 Political and Legal System

Legal framework.  
Main political parties.

## 11 The Economy

Inflation.

## 12 Doing business in the Dominican Republic

Government views toward foreign investment.  
Free Trade Agreement and other agreements.  
Other free trade zone agreements currently in effect.  
Foreign investment.  
Establishing a business.  
Tourism Law.  
Renewable Energy Incentives Law.  
Public Private Partnerships Law.  
Law of Legal Stability for Investments.  
Investment Funds Law.

**15 Banking system**

Central bank.  
Commercial banks.  
List of banks.

**16 Labor and social security**

Labor supply.  
Labor law requirements.  
Social security.

**21 Accounting and audit requirements and practices**

Accounting.  
Statutory audit requirements.  
Books and records.  
Accounting profession.  
Auditing standards.

**22 Tax System**

Other tax regime.  
Corporate deduction.  
Tax incentives.  
Transfer pricing ruling.  
Corporate tax compliance.  
Individual taxation summary.  
Individual deduction.  
Individual tax compliance.

**35 Sustainable Development Goals in Central America and the Dominican Republic**

Why invest in  
the Dominican  
Republic?



In recent years, the Dominican Republic has been characterized as one of the countries with the highest economic growth in Latin America and the Caribbean, based on the development of its most important productive sectors such as tourism, free trade zones, remittances, foreign direct investment, and mining. This country has privileged conditions that improve its competitiveness and make it one of the best destinations for foreign investment in the American continent.

Likewise, the country has a great variety of natural resources such as beaches, mineral

deposits, and fertile lands, which guarantee the diversity of business options for foreign investors.

Finally, the economic, social and political stability that characterizes the Dominican Republic, makes that every year the business climate in the country improves, and facilitates the possibilities of expansion of already established companies. Among the most important measures taken by the government that we can highlight are the opportunities for financing and growth through public-private partnerships.







# Overview of the country



## Climate

The Dominican Republic (“DR”) has a moderate tropical climate, even though it is located in a tropical zone. The northeast winds blow steadily from the Atlantic Ocean all year long, tempering the climate. The average temperature throughout the year is 75°F (25° C).

### Population, form of government, language, currency:

Area	48,671 km <sup>2</sup>
Population (*)	10.847.904 millions inhabitants
Population per km2	195.5 hab. /km <sup>2</sup>
Population growth	1.0%
Urban population	8,953,860 inhabitants (2020)
Political system	Democracy
Form of government	Presidential
Language	Spanish
Currency	Dominican peso (RD\$ or DOP)
Administrative division	31 national provinces and 1 national district
Religion	Roman Catholic / Protestant
Capital city	Santo Domingo de Guzmán

Source: Estimaciones y proyecciones nacional población. Oficina Nacional de Estadística y Banco Mundial.



## Education

The educational system in the DR is regulated by Law 66-97, passed in 1997 and the ordinance 03-2013, and comprises the following levels:

- **Elementary School - 6th grade - Primary**  
(Starts after the initial level is completed and lasts 6 years).
- **Secondary School - Bachelor’s degree**  
(Starts after the Elementary School level is completed and lasts 6 years).
- **College**  
(Starts after completing the middle level and lasts 4-5 years).

The Autonomous University of Santo Domingo (Universidad Autònoma de Santo Domingo), founded in 1538, is the oldest institution of higher education in the New World. It is the only public university in the Dominican Republic and has the largest student body and the highest number of graduates. There are numerous private universities, many sponsored by religious institutions. Among the well-known private universities regarded as high-quality education providers are: Pontificia Universidad Católica Madre y Maestra (PUCMM), Universidad Acción Pro- Educación y Cultura (UNAPEC), Universidad Católica de Santo Domingo (UCSD), Universidad Iberoamericana (UNIBE), and Instituto Tecnológico de Santo Domingo (INTEC).



# Political and Legal System



## Legal Framework

The political and legal structure of the Dominican Republic (DR) is composed of three main branches – Legislative, Executive and Judicial – organized as follows:

### POLITICAL AND LEGAL FRAMEWORK

	EXECUTIVE	LEGISLATIVE	JUDICIAL
<b>Exercised by:</b>	The President	Bicameral National Congress	Supreme Court of Justice (*) Constitutional Court Electoral Court Court of Appeals District Court Small Claims Court (*) The highest of all Judicial bodies
<b>Composed of:</b>	The President	The Chamber of Deputies, made up of 178 deputies, 1 deputy elected for every 50,000 citizens (including 1 deputy for every voting district of more than 25,000 citizens). The Senate, composed of 32 senators, one representing each province and the National District.	The Supreme Court of Justice and the Constitutional Court are composed of 16 and 13 judges respectively and the Electoral Court will be composed of no less than 3 judges without exceeding 5. The number of Courts of Appeals, District Courts and Small Claims Courts and the number of judges sitting on them are determined by law.
<b>Elected or appointed:</b>	The President and Vice President are elected by direct vote every four years.	Senators and Deputies are elected by direct vote every four years.	Judges are appointed by the National Judicial Council. The Council is made up of five judges: two from the Supreme Court of Justice (one of them serving as President of the Council) and one judge from each of the other courts described above.

The Dominican legal system is based on Napoleonic Code.

### Main political parties

- Dominican Liberation Party (Partido de la Liberación Dominicana **PLD**).
- Dominican Revolutionary Party (Partido Revolucionario Moderno **PRM**).
- Social Christian Reformist Party (Partido Reformista Social Cristiano **PRSC**).
- Modern Revolutionary Party (Partido Revolucionario Dominicano **PRD**).
- People's strength (Fuerza del Pueblo **FP**).

Elections take place every four years. The last presidential elections were held in 2020 and the last congressional elections in 2020.



# The Economy



The Dominican economy is the largest in the Caribbean and in Central America. The Dominican Republic is an upper-middle-income country, reliant on the service sector. The most prominent economic activities are construction, tourism, free trade zones, local manufacturing, retail trade, and mining.

The economic activities with the greatest expansion were: construction (32.4%), hotels, bars and restaurants (26.6%), free trade zones (26.3%), transportation and storage (14.6%), local manufacturing (12.4%), commerce (10.7%), and mining (9.2%) through the first half of 2021 according to the report issued on January-August 2021 by the Central Bank.

## Inflation

Inflation, measured as the variation of the Consumer Price Index (CPI), from January to December 2020 was 3.87%, this was due to increases in food prices and transportation costs. On the other hand, as for 2021, it reached 7.81% from January to October. The Governor of the Central Bank also explained that it was due to higher oil prices and due to the increase in freight costs related to the shortage of containers.

## Post-COVID-19 economic outlook in the context of a greener world economy

First, it is important to highlight that the International Monetary Fund (IMF) and the World Bank raised the

economic expectations for the Dominican Republic, given that the GDP variation for 2020 was -6.7%, but for 2021 there will be a variation of +5.5%.

Governor Hector Valdez Albizu's speech at the seventy-fourth anniversary of the Central Bank of the Dominican Republic mentioned that a surprising result is that tourism has recovered faster than expected, receiving more than 3.3 million non-resident visitors during January-September. This performance allows projecting that the arrival of non-residents would exceed 4.8 million in 2021. Albizu explains that local manufacturing has been a determining factor in the recovery, both for its important participation in the GDP and for being one of the main generators of formal jobs in the country. As for free zone manufacturing, the activity recovered 100% of the jobs suspended as a result of the confinement, growing 24.2% year-on-year in January-September 2021.

Also, construction was once again the activity with the greatest impact on growth, representing almost 80% of gross fixed capital formation.





# Doing Business in the Dominican Republic



The government continues to encourage foreign investment and to work in positioning the Dominican Republic as the primary destination in the Caribbean for foreign investors. However, the same business channels are open to domestic and foreign investors alike. There are no major restrictions on foreign investment, and investors can repatriate their profits and capital.

The relaunching of free trade zones, incentives for investment in tourism and the signing of CAFTA-DR are some of the ways the Dominican Republic has encouraged foreign investment. Over the last ten years, there has been an emphasis on restructuring the current free trade zones and strengthening the textile free trade zone, the film industry and other sectors.

## Government attitude toward foreign investment

### Free trade agreement and other agreements

The Dominican Republic is a member of the World Trade Organization and has received preferred treatment. The country has access to the United States through the Caribbean Basin Trade Partnership Act (CBTPA), which was an extension of the Caribbean Basin Initiative (CBI) and the Preferred Generalized System GSP.

The Cotonou Agreement with the European Community allows preferential access to Dominican goods without quantitative restrictions. DR-CAFTA (FTA between the US, Central American Countries and Dominican Republic) was signed and implemented on March 1, 2007. In 1998, the Dominican Republic signed a Free Trade Agreement with other Caribbean islands (CARICOM).

### Foreign investment

The agreement (DR - Central America) between Costa Rica, El Salvador, Honduras, Nicaragua, Guatemala, and the Dominican Republic in April 1998 and entering into force Pro Dominican is the official agency responsible for the promotion of international trade and foreign direct investment (FDI).

Foreign investment is regulated by Law 16-95, which sets the principle of equal treatment for

domestic and foreign investments, guaranteeing the same legal protection for foreigners. Under Art.2 of Law No. 16-95, foreign investment may take the following forms:

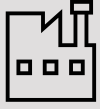
- Contributions in freely convertible currency, exchanged in a banking institution authorized by the Central Bank.
- Contributions in kind, such as industrial plants, new and reconditioned machinery, new and re-conditioned equipment, parts (including replacement and spare parts), raw materials, intermediate products and final goods, as well as intangible technological contributions.
- Financial instruments which the Monetary Board classifies as foreign investment, except those that are a result of contributions or internment of a transaction to restructure the Dominican foreign debt.

Under Art.3 of Law no. 16-95, foreign investment may be directed as follows:

- Investments in the capital of an existing, new or branch company based on the framework of the DR's commercial code. Stock should be nominative shares for foreign investment in companies with share capital.
- Investments in real estate properties in the country.
- Acquisition of financial assets.

Among these conditions, we can highlight its strategic geographic location, since being located in the center of the Caribbean, allows the Dominican Republic to have access to a wide variety of international markets for export and import purposes.





# Doing Business in the Dominican Republic



All foreign investments must be registered at Pro Dominican. Foreign investors must notify the Pro Dominican within 180 days of placing an investment in the country, and will then automatically obtain a Certificate of Foreign Investment Registration.

There are certain constraints, which are standard in most countries:

- Disposal of toxic, dangerous or radioactive waste not produced in the country.
- Activities affecting public health and the environment.
- Production of materials or equipment directly linked to national defense and security, except with the express authorization of the Chief Executive.

## Establishing a Business in the Dominican Republic

There are different business categories in the Dominican Republic – permanent establishment (PE), branch or subsidiary – as defined below.

### Commercial societies

Under Law no. 479-08, the legal commercial societies are:

- General Partnership (Sociedad en Nombre Colectivo).
- Ordinary Limited Partnership (Sociedad en Comandita Simple).
- Joint-stock Company (Sociedad en Comandita por Acciones).
- Limited Liability Company (Sociedad de Responsabilidad Limitada -S.R.L.-).
- Stock company (Sociedad Anónima -S.A.-).
- Simplified Stock Company (Sociedad Anónima Simplificada -S.A.S.-).

Foreign investors may establish their business through any of the legal forms allowed under domestic legislation. Local companies with foreign capital can access domestic credit with the same rights and under the same conditions as local companies with domestic capital.

Aside from the branch, the Limited Liability Company is the vehicle most frequently used by both domestic and foreign investors, since in accordance with the Law No. 68 -19, this type of commercial societies do not require a minimal amount of social capital and they can also be incorporated on the Chamber of Commerce webpage.

### Incorporation procedure of a local entity

- Register the company name at the Trademark Office (ONAPI) and obtain the Business Name Certificate.
- Pay capitalization tax to tax authorities (branches are not required to make this payment).
- Submit to the Chamber of Commerce the following documents:
  - Articles of incorporation;
  - List of shareholders and copies of their IDs or passports;
  - Documentation of the first general shareholder's meeting.
- Obtain mercantile registration certificate from the Chamber of Commerce.
- Submit the RC-02 form to tax authorities and obtain the tax identification card.





# Doing Business in the Dominican Republic



## Closing procedure

Liquidation or dissolution of a company in the DR is regulated by Law No. 479-08 and its Reform 31-11.

## Branch and/or permanent establishment

A branch is created upon its registration with the Chamber of Commerce, whereas a permanent establishment (PE) is a fixed place where the business of the enterprise is wholly or partly conducted, such as: management offices; branches; a mine, oil or gas well, quarry or other location for extraction of natural resources; assembly projects, including monitoring the activities thereof; construction of or sales management of machinery or equipment when the cost exceeds 10% of the purchase price of such goods; business consulting services provided in excess of six months within a fiscal year; offices for staff or free-lance representatives or agents, when the latter work exclusively or almost exclusively on behalf of the company.

If a PE arises, the foreign company is subject to registration with the Chamber of Commerce and tax authorities. Both the branch and/or PE are considered an extension of the parent company.

A PE has the same characteristics as a branch for tax and legal purposes.

## Registration procedure

- 1) Submit to the Chamber of Commerce the following documentation:
  - Articles of Incorporation;
  - Updated Certificate of Incorporation of the parent company;
  - Power of attorney issued by the company designating a representative in the DR, including authorization for registering the branch and establishing the domicile in the DR.
  - Copies of the ID's or passports of the main shareholders and members of the board of directors.
- 2) Obtain Mercantile Registration Certificate at the Chamber of Commerce.
- 3) Obtain Tax Identification from tax authorities by submitting the RC-02 Form.

It takes the same amount of time to incorporate a domestic company or to register of a branch in the DR, once the documentation is submitted to the DR authorities, and the same procedure is followed.

## Joint venture

Joint Venture is a contract between two or more persons who are classified as partners with an interest in one or various specific and transitional business operations, which shall be run by one of them in his name alone and under his personal credit, with responsibility for tabulating and dividing with stakeholders the gains or losses in the proportion agreed upon.

- (Note: These documents need to be legal IDs in the country of origin and translated into Spanish by an official translator in the DR.)





# Doing Business in the Dominican Republic



## Banking System



### Central bank

The Central Bank of Dominican Republic (Banco Central de la Republica Dominicana / BCRD) was created on October 9, 1947 by Law No. 1529. Its main office is located in Santo Domingo, with a regional office in Santiago de los Caballeros.

The Central Bank is an autonomous institution responsible for executing policies issued by its Monetary Board. It oversees currency, credit and foreign exchange controls and closely regulates and supervises the activities of banks and other financial intermediaries.

### Bancos comerciales

The banking system in the DR is well established, composed of a number of private institutions that are regulated by the Central Bank and the Superintendence of Banks.

### List of banks

#### Central bank

- Central Bank of the Dominican Republic.
- Bancos estatales
- Banco de Reservas de la República Dominicana.

#### Government-owned banks

- Banco de Reservas de la República Dominicana.

#### Foreign banks

- Citibank, N.A.
- Banco de las Américas S.A. (Bancamérica).
- Banesco, S.A.
- Banco Promerica de la República Dominicana, C. por A.
- Scotiabank República Dominicana, S.A.

#### Commercial banks

- Banco Popular Dominicano S. A.
- Banco BHD León S.A.
- Banco Santa Cruz, S.A.
- Banco Caribe Internacional, S.A.
- Banco BDI, S.A.
- Banco Vimenca, S.A.
- Banco López de Haro S.A
- Banco Múltiple Ademi, S.A.
- Banco Lafise, S. A.
- Banco Activo Dominicano, S. A.
- Banco Bell Bank, S.A.



# Labor and Social Security



## Labor supply

Employment statistics, according to the last National Workforce Survey, conducted every year by the Central Bank of the Dominican Republic, are as follows:

**Economically Active Population (1) by age group, 2015-2020.**

Age range	2015	2016	2017	2018	2019	2020
15-19	24,317	214,689	820,531	827,839	308,995	311,244
20-39	2,208,460	2,272,771	1,718,191	1,782,043	2,013,269	2,640,961
40-59	1,551,057	1,588,231	1,654,693	1,731,450	1,664,449	1,699,937
60 y más	423,487	425,818	444,687	470,120	383,525	399,419
<b>Total</b>	<b>4,407,321</b>	<b>4,501,509</b>	<b>4,638,102</b>	<b>4,811,453</b>	<b>4,967,122</b>	<b>5,051,561</b>

Source: National Statistics Office of the Dominican Republic.







# Labor and Social Security



## **Labour law requirements**

Below is a summary of the most important requirements of Labor Law no. 16-92, enacted on May 29, 1992.

## **Wages and salaries**

Minimum wage is the lowest salary that can be agreed upon in an employment contract and is established by the National Salary Committee, a division of the Ministry of Labor, and varies according to different types of businesses and their installations and/or holdings.

## **Profit sharing**

It is mandatory to share 10% of the company's profits with employees.

## **Christmas bonus**

In the month of December, the employer is obliged to pay the worker a Christmas bonus consisting of one-twelfth of the usual salary earned by the worker in the calendar year.

## **Fringe benefits**

Non-cash compensations given to employees (benefits in kind) are taxed at a 27% rate in 2015, levied on the employer. This compensation

includes cars, housing, relocation expenses, club memberships, etc.

## **Hours worked**

The maximum work day is 8 hours, not to exceed 44 hours a week. The work week must end at noon on Saturday. Any change in the end of a work week has to be approved by the Ministry of Labor. In the case of overtime, the employer must pay all overtime hours at 100% the regular hourly wage plus 35%, and an additional 15% for night-time hours.

## **Paid holidays and vacations**

After each year of continuous employment, employees are entitled to receive 14 days of paid vacation. More vacation time may be granted upon agreement between the employer and the employee, but the additional vacation days must total less than one week.

## **Termination of employment**

The employment contract can be terminated with or without legal liability for both parties. Termination of the contract without legal liability can be done by mutual consent, under the terms of the contract or in cases where the contract cannot be fulfilled.



# Labor and Social Security



## Termination of the contract with legal liability

- Dismissal without cause.
- Dismissal with cause.
- The worker's resignation.

## Termination due to incapacity or death of the employee

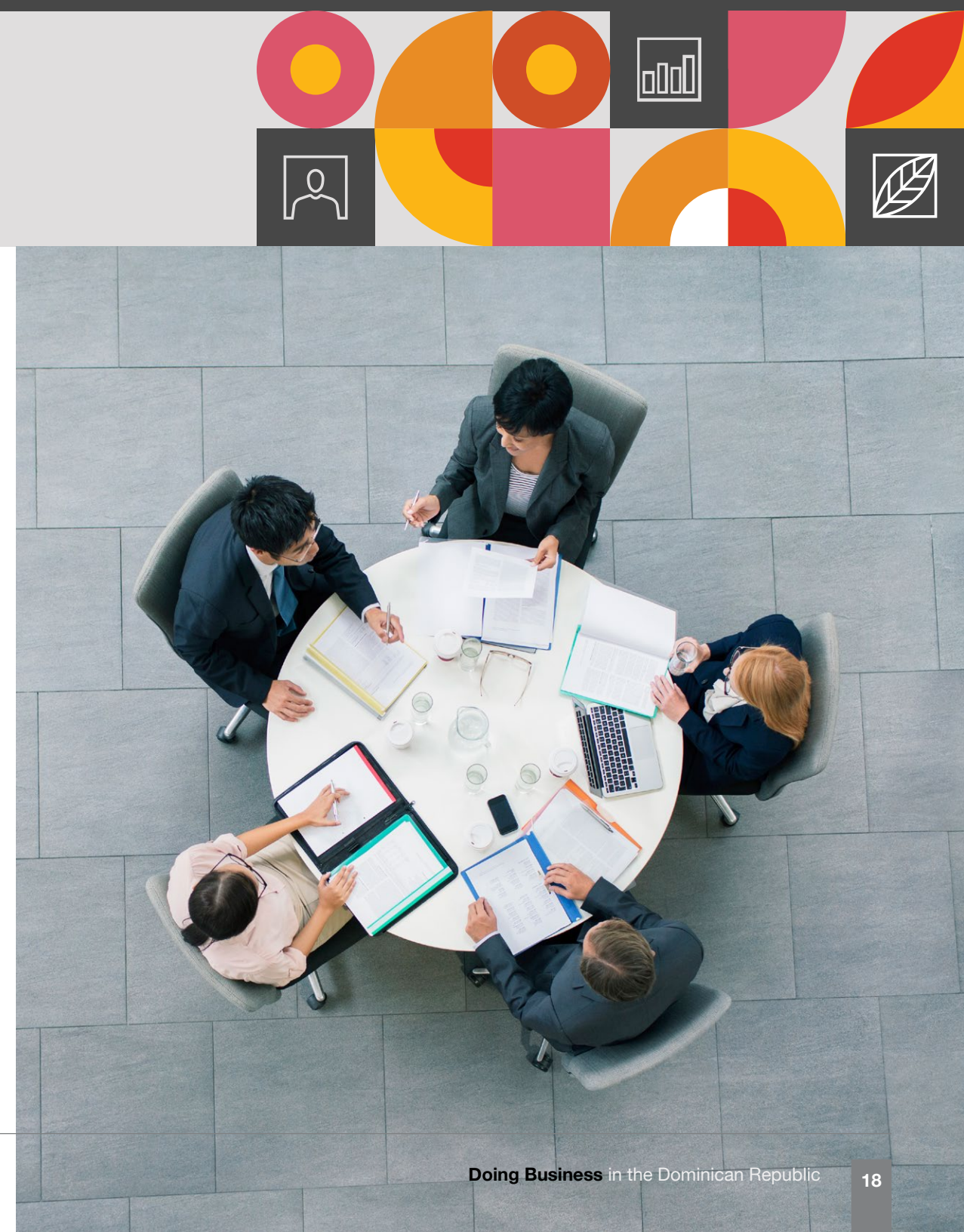
In the event of the employee's death or disability, the employer shall pay the employee, or his/ her heirs, economic assistance in the amounts shown in the table below (Art. 82 DLC).

## Economic assistance

Time employed	Assistance
3 to 6 months	5 days salary
6 to 12 months	10 days salary
Over 1 year	15 days salary per year

## Severance payment

Severance payment varies depending on the duration of the employment contract as outlined in the Art.80 of the DLC. When applicable, any sums owed by the employer must be paid within ten days of the contract's termination (Art. 86). Noncompliance entails a penalty of one days salary for every day of delay (Art. 86).





# Labor and Social Security



## Technical education tax

Employers and employees are required to make payroll-based contributions to finance programs for technical instruction and training of workers. The contribution for employers is 1% of total monthly payroll and for employees 0.5% of bonuses received.

## Foreign personnel

There is a limit on foreign personnel in a Dominican company, as the DLC requires that 80% of employees are Dominicans.

Wages received by the Dominican employees must amount to at least 80% of the company's total payroll (Art.138 DLC). Employees with exclusively executive or managerial duties and those in technical positions that cannot be filled by Dominicans are exceptions to these rules (Art. 138).

## Social security

The Dominican Social Security System (SDSS for his acronyms in Spanish), established by Law no. 87-01 enacted on May 10, 2001, regulates and determines the mutual rights and interests of the state and the people with regard to a fund for protection against the risks of old age, disability, unemployment due to advanced age, illness, childhood disabilities and occupational

hazards, and for provision of survivors' and maternity benefits.

The SDSS is conducted and regulated by the National Social Security Board. The administration of the system is the responsibility of two autonomous agencies, the Superintendent of Pensions (Art. 06) and Superintendent of Health and Labor Risks (Art.175).

Social security law no. 87-01 introduces three benefits:

- Old-age, disability and survivors insurance (Pensions),
- Family health insurance, and
- Occupational hazard insurance

The system covers legal residents in the Dominican Republic (nationals and foreigners) and Dominicans residing abroad.

For the purpose of calculating the contribution ceilings of the Family Health Insurance, the reported salary of the employee, with a ceiling of 20 national minimum salaries for pensions, ten national minimum salaries for Family Health Insurance and four national minimum salaries for occupational risk insurance.

As of January 2022, the amount of the National Minimum Wage is set at RD\$15,600.00, effective as of August 1, 2021. Likewise, the amount of the Minimum Wage is set at RD\$16,262.50 as of January 1, 2022, for the calculation of the maximum contribution ceilings of the Contributive Regime for the Family Health Insurance, the Labor Risks Insurance and the Old Age, Disability and Survivorship Insurance, based on the average of the four (4) classifications of the minimum wages of the non-sectorized private sector, established by the National Wage Committee of the Ministry of Labor, by Resolution No. 01-2021 dated July 1, 2021, as amended by Resolution No. 01-2021 dated July 1, 2021. 01-2021 dated July 14, 2021.

## Pension

The current applicable percentages for pensions are 2.87% (employee) and 7.10% (employer) of the employee's taxable income. This contribution is mandatory. If the employee already contributes in another country (as a resident), a certificate of contribution from the relevant Social Security Ministry should be issued and filed in the Dominican Social Security Ministry, in order to avoid double contribution.



# Labor and Social Security



## Family health

The current family health rates are 3.04% (employee) and 7.09% (employer) of the employee's salary subject to Social Security deductions.

## INFOTEP

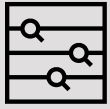
A payroll tax is imposed on employees and employers to finance programs for the technical instruction and training of workers. The contribution by employers is 1% of monthly payroll (after employee social security); for employees it is 0.5% of bonuses received.

## Occupational hazard

This contribution is covered 100% by the employer and has four different rates depending on the risk category assigned by the Social Security Treasury. It takes into account the type of activity performed by the company and its personnel. The rates for each category are defined as follows:

Category	Percentage of salary
I	1.10%
II	1.15%
III	1.20%
IV	1.30%





# Accounting and Audit Requirements and Practices



## Accounting

The accounting principles followed in the DR are those established by the Institute of Certified Public Accountants of the DR (ICPARD). Under Minute No. 2010- 004 (Resolutions 001 and 002), the ICPARD adopted the International Financial Reporting Standards (IFRS) in Spanish version for companies that are listed in the Superintendence of Securities or International Financial Reporting Standards for Small and Medium Size Entities (SMEs) for the remaining companies as the accounting standard for companies operating in the DR.

Regulated companies must follow the accounting standards established by their respective regulatory bodies.

The ICPARD established January 1, 2014 as the date by which all companies operating in the DR should be following the IFRS or IFRS for SMEs, to allow adequate time for companies to adopt the new principles.

Previously, some companies used a set of accounting principles that can be characterized as generally accepted accounting principles in the DR. They were in accordance with many aspects of the IFRS, but do not comply with all of their requirements.

New standards, amendments and interpretations issued by the International Accounting Standard Board (IASB) should be applied six months after they have been translated into Spanish.

### Statutory audit requirements

Art. 33/Law no. 31-11 of February 10, 2011, which amends the Law No. 479-08, regulating commercial entities and limited companies, indicated that companies should be required to prepare audited financial statements if one of the

following conditions is met:

- Borrows from financial institutions or financial intermediaries.
- Issues any type of security.
- Shows annual income more than 100 times the official minimum salary.

In addition, companies are required to elect Statutory Auditors (comisarios) to oversee management's actions on behalf of stockholders for S.A and optional for S.R.L.

### Books and records

- Accounting records should be kept in Spanish and, as specifically required by the Commercial Code, should include two bound books of account, a daily journal (libro diario) and an inventory book (libro de inventarios). These books should be kept for at least ten years.
- Accounting books/records could be kept in a variety of ways, by digital or manual means. These methods meet the Commercial Code's formal requirements.

### Accounting profession

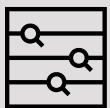
Licenses to practice as Certified Public Accountant (Contador Publico Autorizado - CPA) are issued by the government's executive branch.

Candidates must obtain a degree in accounting, auditing or finance from a Dominican university. The accounting profession is regulated by ICPARD.

### Auditing standards

The DR follows the International Auditing Standards issued by the International Auditing and Assurance Standards Board.





# Tax System



The Dominican Constitution states that the National Congress is empowered to levy taxes. Taxes will be collected and administered by the Dominican Government through the General Directory of Internal Taxes (“ DGII”).

## Tax on corporate income

The DR follows a territorial concept for the determination of taxable income. The current corporate income tax rate is 27% in 2021.

Please note that the asset tax is an alternative minimum tax that is payable when it is higher than a company’s corporate income tax liability. See also asset tax in ‘Other Taxes’ section.

## Asset tax / Minimum tax

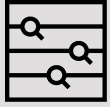
Asset tax/Law No. 557-05 imposes a 1% tax on total assets. Share investments in other companies, land in rural areas, immovable property pertaining to livestock and agriculture, and advance tax payments are excluded from this tax base.

Depreciation, amortization and reserves for bad debts are allowable deductions for application of the 1% tax on total assets.

This tax shall be filed and paid in combination with the Annual Corporate Income Tax Return (Form 1R-2) and as follows:

- The asset tax is an alternative minimum tax.
- The income tax is allowed as a credit against the asset tax.
- If the income tax is greater than the asset tax, the obligation to pay the asset tax is cancelled and the income tax is paid instead.





# Tax System



## Minimum tax test

If the income tax is less than the asset tax, the difference (in order to complete the asset tax value) shall be paid in two equal installments as follows:

- First installment shall be paid within 120 days of closing date.
- Second installment shall be paid within six months after first quote's due date.

Companies may request a temporary exemption from the asset tax. For example, companies that require large capital (among other requirements established by General Ruling No. 3-06) may make such a request, which shall be submitted at least 90 days before the filing due date. The Internal Revenue Agency shall evaluate the merits of the request and approve or deny it as appropriate.

If the company has an income tax credit arising from excess advance payments, it may request that the refund of such balance be applied against the asset tax.

In the case of financial institutions, power generation and distribution companies, pension fund entities and stock brokerage companies, the tax is calculated based on the book value of fixed assets. According to rule no. 07-2007,

construction companies may seek exemptions from the asset tax, provided that they meet the requirements established in this rule.

## Tax on branch income

The branch profits tax rate is 27% for 2021.

## Free Trade Zone Tax

Law 253-12 establishes a 3.5% tax rate on sales of goods and services rendered by companies in free trade zones, traded in the local market with individuals and legal entities.

## Export free trade zones

Free trade zones are regulated by Law 8-90, which defines the special customs, tax and commercial rules that benefit entities classified as Free Trade Zone (FTZ). FTZs are expected to be in a specific geographical area within the DR, with special customs and tax controls, with the products introduced, stored or transformed in these areas

to be located abroad, and the services provided therein to be rendered abroad.

The three types of free trade zones are as follows:

- Industrial or services free zones, located in specific non-metropolitan areas within the DR;
- Border free zones, located on the border of DR and Haiti; and
- Special free trade zones – those that must be located outside a FTZ park to be near the resources needed to manufacture goods.

The National Export Free Zone Council (CNZFE) is in charge of regulating and supervising the sector, and every 30 days the CNZFE Board meets to study and approve any operations in the Free Zone.

## Special FTZs and call centers

There are over 20 legal entities acting as call

centers, classified as Special FTZ, most of which are located in cities, even though there are no legal provisions for call center activities to obtain this classification. Special FTZs are only engaged in call center activities, in compliance with the FTZ Council requirement. No financial or other business operations different from call center activities are allowed to be performed.

However, Law 253-12 abolished Special FTZ classifications. Therefore, only FTZ located in specific geographical FTZ park will be eligible to apply for a classification under Law 8-90.

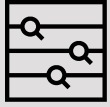
## Selective Consumption Tax

Indirect or selective consumption taxes apply to the purchase at the level of the manufacturer or import of certain goods and the provision of certain services.

Alcoholic products and cigarettes are subject to Selective Excise Tax including a specific ad-valorem tax, which are adjusted for annual inflation for the period from October 1 to December 31, 2021:

- Alcoholic beverages and beers will be paid a ten percent (10%) Selective Ad-valorem Tax (which is applied on the selling price to the final consumer according to price surveys





# Tax System



conducted by the authorities for different market segments), plus a specific amount of RD\$659.93 for each liter of absolute alcohol content.

- Cigarettes: DOP 55.82 for a package of 20 and DOP 27.91 for a package of 10 plus 20% over the final consumer price.
- The specific tax is adjusted for inflation on a quarterly basis.

Other products subject to this tax are:

- 7.5% on the transfer of alcoholic beverages, applied on the sales price. Imports and transfers made by domestic manufacturers are subject to this tax.
- 20% on the transfer of tobacco products, applied on the sales price. Imports and transfers from domestic manufacturers are subject to this tax.
- 19.50% to 130% on the consumption of certain imported goods (listed in the law) which are considered non-essential.
- 10% of telecommunications services, including cable television.
- 16% on insurance services.

- 0.0015% on the value of checks or electronic transfers made through financial institutions (this tax does not apply to cash withdrawals or the use of credit cards).

## Value-added tax (VAT)

In the DR, VAT is known as Tax on the Transfer of Industrialized Goods and Services (ITBIS). The ITBIS is a value-added tax applied to the transfer and import of (movable) industrialized goods and the provision of services, with exemptions established by law for certain goods and services. The rate is 18%. On the other hand, a reduced rate of 16% applies to the following products: yogurt, butter, coffee, animal or edible vegetable fats, sugars, cocoa and chocolate.

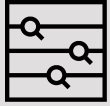
## Exports

Zero percent rates apply to exports, including sales to free trade zones.

## Imports

18% VAT applies to imports, and it will also apply in the sale of goods to local market made by free trade zones.





# Tax System



## Real estate transfer tax

This tax is assessed at the basic rate of 3%.

## Other tax regimens

### Simplified regimen

Taxpayers can apply for the simplified regimen, which consists of an estimated income tax payment, in accordance with rule no. 758-08. This regimen can be applied if at least one of the following conditions is met:

- Companies engaged in informal retail sales (groceries stores, markets, etc.).
- Companies engaged in wholesale and retail sales (groceries stores, markets, etc.) in which the inventory is normally acquired from domestic suppliers or identified as domestic suppliers based on their products.
- Companies engaged in manufacturing of goods sold to non-hosted in the simplified regimen and which purchase their materials in the domestic market.

In addition, the following conditions should be met:

- Purchases cannot exceed DOP 42,200,000 annually.
- If an invoice is issued with a NCF, and applied

by other taxpayers as a credit for ITBIS (VAT) purposes, the company should pay the ITBIS (VAT) invoiced in the corresponding month and the estimated ITBIS (VAT) value established in rule no. 758-08.

- Companies must be registered in the National Taxpayers Database (Registro Nacional de Contribuyente - RNC).
- Fiscal year should be year ending December 31st.
- The registration form must be duly signed and filed.
- Tax obligations at the time of the application should be fulfilled.

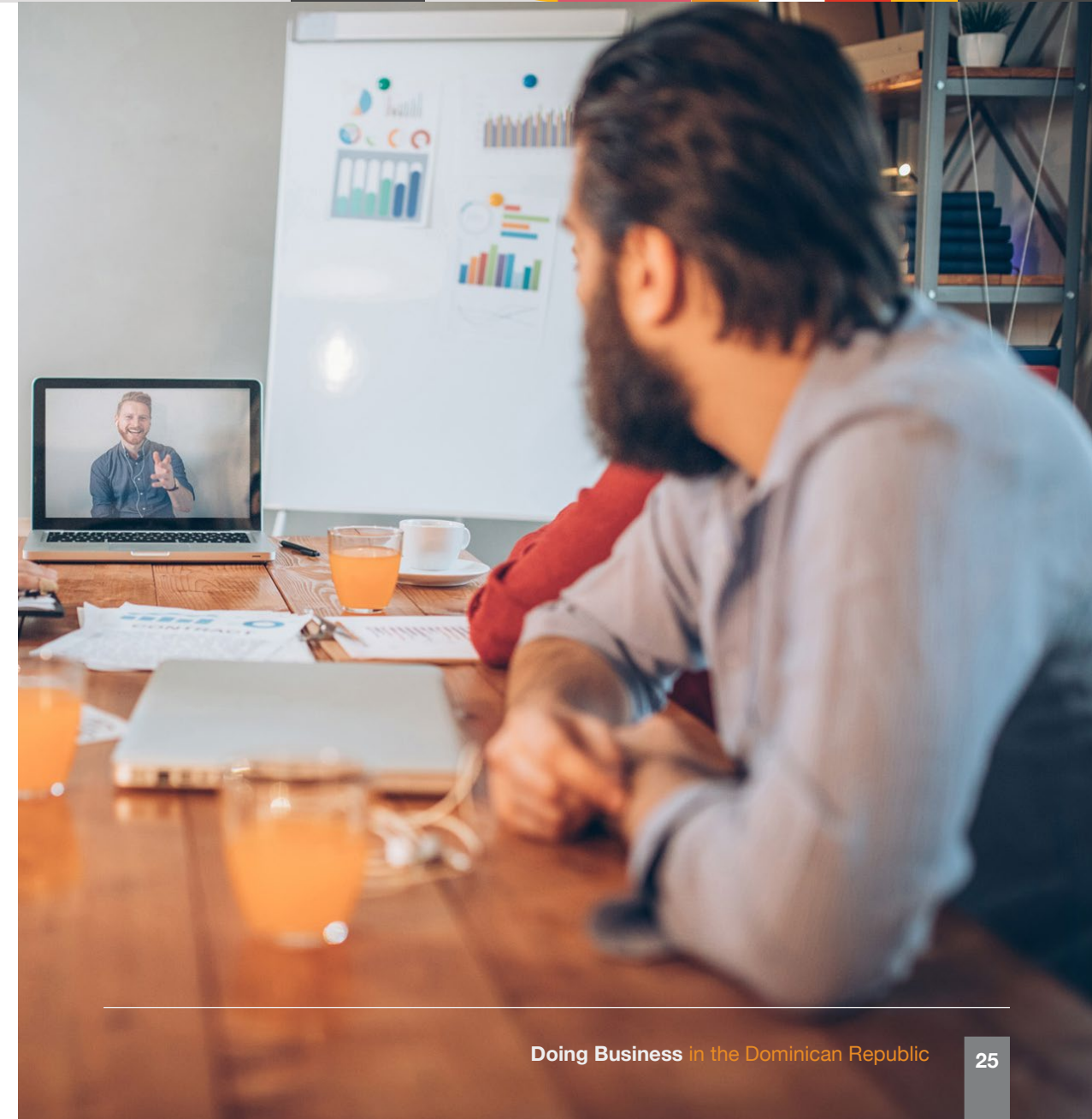
### Simplified regimen for casino and slot machines

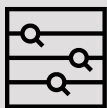
The income tax rate is 5%, as established under Law no. 139-11 of June 29, 2011. Total operations or gross sales of operating and legally installed slot machines should be considered the taxable base, regardless of geographic location.

### Simplified regime based on income

Taxpayers wishing to avail themselves of this method must comply with the following characteristics:

- That more than 50% of the goods sold or the services they provide





# Tax System

## Tax on slot machines February 2021 up to January 2022:

metropolitan area	DOP\$ 319,135
Remaining Provinces	DOP\$ 212,757

There is a simplified regime for income tax payments from casinos based on the number of tables in operation.

## Amounts from February 2021 up to January, 2022:

1- 15 Tables	DOP\$ 46,097
16- 35 Tables	DOP\$ 53,189
From 36 Tables onwards	DOP\$ 70,919

Simplified regimen for companies engaged in the lottery business Law no. 139-11 of June 29th, 2011, establishes a single annual tax of DOP 49,643 for companies engaged in the lottery business. This tax should be paid on a monthly basis. This tax amount is indexed annually according to the Consumer Price Index (CPI) published by the Central Bank.

## Single annual tax from February, 2021 to January, 2022:

Lottery business	DOP \$49,643
------------------	--------------

In addition, they must pay monthly taxes of 1% tax on gross sales or operations and DOP\$ 200,000, and are obligated to meet the fiscal code requirements.

## Simplified regimen for companies engaged in the sports betting business

Law no. 139-11 of June 29th, 2011, establishes that companies engaged in the sports betting business (bancas de apuestas) with establishments in Dominican territory should pay an annual tax based on their geographic location, to be paid monthly.

## Single annual tax from February, 2021 to January, 2022:

Sport business (Metropolitan area)	DOP\$319,135
The remaining	DOP\$212,757

In addition, they must pay monthly taxes of 1% tax on gross sales or operations and DOP\$ 500,000.

## Income obtained by transportation entities

Art. 274/ Law no. 166-97: Income obtained by foreign transportation companies through operations made from the Dominican Republic to other countries shall be presumed to be from Dominican sources and to be equivalent to ten percent (10%) of the gross amount of fares received for passengers and cargo. National transportation companies shall be subject to this presumption when the net income cannot be determined. Regulations shall establish pertinent provisions for the application of this provision. Income of insurance companies

**Art. 275/ Law no. 166-97:** Foreign insurance companies, whether located within or outside the country, shall be presumed to have obtained a minimum net profit from Dominican sources equivalent to ten percent (10%) of the gross premiums charged by them to insure or reinsure persons, goods or enterprises located in the country. National insurance companies shall be subject to this presumption when the net income cannot be determined.

International treaties to avoid double taxation The Dominican Republic has two international treaties to avoid double taxation with the countries of Canada, dated August 6, 1976 and Spain, dated July 25, 2014.

Both treaties covers all taxes imposed on total income, on total capital, or on elements of income or of capital, including taxes on gains from the alienation of movable or immovable property, taxes on the total amounts of wages or salaries paid by enterprises and taxes on capital appreciation.

## Corporate Deduction

### Allowed deductions

Art. No. 287 of the Dominican tax code specifies that all expenses incurred in order to

obtain, maintain and preserve taxable income are considered deductible for tax purposes. Deductible expenses arising from company activities include the following:

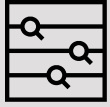
### Interest

Interest deductibility is limited to 2 criterion in which the most favorable one for Tax Authorities will apply:

Deduction of interest paid abroad (or to resident physical persons) is limited to the amount resulting from the application of the quotient, resulting from 10% WHT and 27% corporate income tax to the interest expense.

**Note:** In case interest recipient is subject to taxation abroad on said income, this limitation to interest deductibility will not apply, provided that the final nominal rate is equivalent or exceeds the applicable rate in the Dominican Republic. If said rate is inferior, interest deductibility limitation will apply with nominal rate abroad and local corporate income tax rate as benchmark.

- Relation between nominal rate and effective rate and its implications: Nominal and effective rates are considered equivalent, unless tax resulting from the application of nominal rate is reduced by special tax incentives.



# Tax System



- Interest deduction limitation (Thin Capitalization): The deduction will be on the amount incurred but may not exceed the product of multiplying total interest amounts yielded during taxable period, times the value of three times the maximum annual average of accounting capital and the annual average of taxpayer's total interest bearing debt (excluding those in which its creditors with local residency or domicile and are subject to corporate income tax).

Average accounting capital is obtained from the sum of the period's initial and final balances, divided by two. This is comprised of the paid-in capital, legal reserve and retained earnings as reflected in the financial statements (excluding period's earnings effect). Taxes expenses deduction: Deductibility of taxes will proceed if these were paid for the generation of taxable income, are part of its cost and do not represent a credit or advanced tax.

## Taxes

In principle, taxes are not deductible, nor are interest and surcharges imposed on taxes, inheritances, donations, fringe benefits tax and penalties related to all taxes.

## Insurance premiums

All insurance premiums that cover risks on goods that generate profits should be deducted.

## Extraordinary damages

Extraordinary damages suffered by goods that produce profits as a result of accidental causes (force majeure) are deductible.

## Depreciation and depletion

Depreciation allowances on fixed assets are determined by the declining balance method at the following rates:

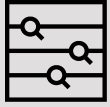
## Amortization

Depreciation of the monetary cost of each intangible asset, including: patents; copyrights; drawings; models; contracts; and franchises with a finite term must reflect the life of said asset, using the straight line method over a recovery period.

## Bad debts

These are deductible only in the year the loss is suffered. Authorization may be obtained to use an alternative method, which consists of a provision allowing the deduction only in the year the bad debt qualifies as doubtful, up to 4% of the balance of accounts receivable at year-end.





# Tax System



## Depreciation and depletion

Depreciation allowances on fixed assets are determined by the declining balance method at the following rates:

Class	%
Buildings	5
Furniture, fixtures, computers, vehicles, etc.	25
Other assets not specified	15

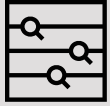
- The fiscal book value is adjusted to the annual inflation rate.

## Net operating losses

Carry forward losses by legal entities can be used to offset profits up to the fifth period following the period in which the losses were generated, with a maximum amortization of 20% in each period. For the fourth period the deduction allowed should not exceed 80% of the net taxable income. In the fifth period, the percentage is 70%.

## Group taxation

When a person, company or group of persons, whether or not domiciled in the DR, conducts its activities through a company or business and other divisions associated, controlled or financed by them, the tax authorities may classify this as an economic unit. In this case, the Administration may contribute, assign or allocate gross income, deductions, and credits between such organizations or businesses if it determines that such distribution, adjudication or assignation is necessary to prevent tax evasion or to clearly reflect the income of any such organizations or companies.



# Tax System



## Withholding tax (WHT)

The WHT on payments to foreign corporations which are not permanently established in the DR, are as follows:

Valor	Interest	Dividends %	Royalties %	Technical assistance %	Other %
Non-treaty, basic	10(1)	10(1)	27	27	27
Treaty (Canada)	18	0-10	18	27(2)	27
treaty (Span)	0-10 (3)	0-10 (3)	0-10 (3)	10- 27 (3)	10- 27 (3)

(1) This withholding is a sole and definite payment.

- In the case of interests, this withholding tax rate applies to both financial and non-financial institutions.
- Dividend distribution of shares is not subject to withholding tax.

(2) Technical assistance withholding tax could constitute a tax credit if certain conditions are met.

(3) It depends if you have a permanent establishment.

## Tax Incentives

To promote the economy, the government constantly develops and amends incentive laws which benefit specific sectors. The main sectors that benefit from these incentives include tourism, industrial free trade zone operations, alternative energy, industrial renovation and modernization and border development.

### Law No. 158-01 – Tourist Development and its amendment Law No. 184-02

Establishes tourism development for limited development poles and new poles in provinces and places of great potential, and creates the Official Tourism Promotion Fund.

**Law 253-12** eliminated exemptions to resident physical/juridical persons that invest in tourism projects (directly to the promoters/developers) within the specified tourist development zones.

### Law No. 57-07 – Incentives for renewable energy and special regime

Establishes the basic regulatory framework, to be applied throughout the nation, to encourage and regulate development of and investment in projects that develop renewable sources of energy and seek to benefit from such incentives.

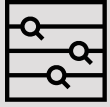
### Tax Reform Law 253-12 eliminates:

- Income tax exemption granted to companies generating renewable energy approved by the National Power Board (“Consejo Nacional de Electricidad”).
- Financing incentives granted to social and cultural institutions that develop renewable energy resources for community use, and
- Reduces to 40% the credit on investment expense granted to self power producers 40% (previously 75%).

### Law No. 392-07 – Industrial renovation and modernization

It creates a new institutional framework and a regulatory body to allow the competitive development of the manufacturing industry. It suggests policies and support programs that will encourage renovation and industrial innovation, with a view to greater diversification of national production and strengthening of the manufacturing chain through the promotion of industrial parks and districts and links to international markets.

**Law No. 28-01** – Border development zone and its amendment **Law No. 236-05** Creates Special Zones for Border Development in order to attract new investment and development projects to those zones, such as



# Tax System

industrial, agroindustrial, construction, free zone tourism, metal and energy companies, etc. It declares a national interest in the promotion and protection of such companies, to encourage the development of the border region with Haiti. The border cities entitled to benefits under the law are: Pedernales, Independencia, Elías Piña, Dajabón, Monte Cristi, Santiago Rodríguez and Bahoruco.

#### **Law No. 56-07 – Textile industry**

Declares the textile sector a priority sector for the nation and creates a national regulatory regimen for the sector.

#### **Law No. 84-99 – Reactivation and promotion of exports**

It reintroduces a system which supports exports, consisting of the following new mechanisms:

- 1) Refund of customs duties and taxes,
- 2) Simplified Compensation for customs duties, and
- 3) Temporary Admission for Investment.

#### **Law No. 480-08 – Law of international financial zone in the DR**

Defines a legal framework for the establishment of International Financial Zones in certain geographic areas of the DR, which will be opened for offshore, financial services and related activities for persons who are not DR residents and citizens whose primary residence is outside the DR.

**Law No. 179-09 – Deduction of educational expenses from personal income tax** Allows natural

persons except sole-owner business tax filers to deduct from gross income the costs incurred in the education of their self-employed direct dependents.

#### **Law No. 502-08 - Promotion on books and libraries aims to:**

Establish principles and standards to promote the foundation of an integral and sustainable policy that will lead to equal access to books in the DR; Achieve well-integrated development of all sectors of the Dominican publishing industry; and build a National Library as a means to the nation's social, educational, cultural, scientific, technological and economic development and its integration with the world.

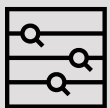
**Law No. 108-10 – Promotion of film activity and its amendment Law No. 257-10** promotes progressive, well-integrated and equitable development of the domestic film industry, and generally promotes film production in the Dominican Republic.

#### **Law No. 171-07 – Retirees and annuitants of foreign sources**

Establishes certain benefits and exemptions for foreign retirees and self-supporting foreigners who wish to reside permanently in the DR, provided that they meet the requirements and conditions set by this law.

**Law No. 8-90 – Development of free trade zone export incentives** Grants free zone companies a





# Tax System



100% exemption from the following for a 15-year period: Income tax payment on:

- Construction and loans for registration and transfer of real estate through construction of the corresponding Free Zone Operator.
- Incorporation of commercial entities or their capital increase.
- Municipality tax payment.
- All import, tariff, customs rights and other taxes affecting raw material, equipment, construction material, buildings, office equipment, etc. for free zones.
- Tax on patent filings or patrimonies as well as tax on transfers of industrial goods and services (ITBIS / VAT).
- Custom duties related to:
  - Equipment and necessary tools for the installation and operation of affordable dining rooms, health services, medical assistance, nursery facilities and any other kind of equipment promoting the welfare of the workforce.
  - Transportation equipment, trucks, garbage collectors, and minibuses for employee transport to and from work centers, with the CNZFE's prior approval in each case.

## Transfer Pricing Ruling

Transactions between related parties in the Dominican Republic must meet the requirements initially established by the General Rule 04-2011 issued on June 2, 2011, further included in the Dominican Tax Code by Law 253-12. This rule

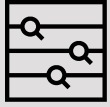
provides additional regulations for transfer pricing dispositions included in Law no. 495-06, which were promulgated in 2006 and which introduced the concept of transfer pricing in the Dominican Republic.

Transfer Pricing regulations mainly adheres to the arm's length principle and are in line with the guidelines issued by the Organization of Economic Cooperation and Development (OECD), referred to as the "OECD Guidelines".

These regulations mainly establish the following:

- That the intercompany transactions subject to analysis include those that may take place with domestic and foreign related parties, as well as any transactions with tax havens or operating in free trade zones. The list of tax haven countries will be published by the Tax Authorities (Dirección General de Impuestos Internos - "DGII"), taking into consideration the OECD pronouncements on the matter.
- Also, even if there is no ownership, an exclusive relationship is considered a related party.

From the obligations perspective, a transfer pricing informative return (Declaración de Operaciones entre Partes Relacionadas - "DIOR") is required to be filed no later than 60 days after the filing of the corporate tax return. If the transactions carried out during the fiscal year under analysis surpass the threshold of RD\$ 12,193,981.70, taxpayers



# Tax System



should prepare a transfer pricing report, which will be provided to DGII upon request. This report shall include: a functional analysis, details and quantification of the intercompany transactions, method selected for the analysis, details on sources for all information, interquartile ranges (if applicable) and details on adjustments that may have been performed by the analysis.

As of the Decree 256-21, it is established that by 2023, the transfer pricing informative return must be filed in conjunction with the corporate tax return. The transfer pricing report must be delivered 180 days after the filing of the transfer pricing informative return. Companies, which its income surpasses the threshold of RD \$ 38,800,000,000 must submit a Country-by-Country Report in 2023, this obligation will be valid as long as the parent company or the company designated as the informant. Taxpayers who, with respect to the counterparties with which they carry out transactions, comply with the linkage assumption established in Numeral I of Article 2 of the Decree no. 78-14 and who are part of a multinational group, must submit a Master File Report in electronic format.

## Corporate Tax Compliance

### Returns

The corporate annual tax return must be filed and tax paid within 120 days after year-end.



Tax authorities may allow extensions of up to 60 days, upon request. Tax returns are based on self-assessment and must be filed on electronic forms supplied by the Internal Tax Department.

### Payment of tax

The balance of any tax due must be paid no later than the due date for filing the return. Corporations domiciled in the country and permanent establishment of foreign enterprises shall be obliged to make monthly advance payments of tax related to the period in progress.

### Year-end dates established by the Dominican Tax Code

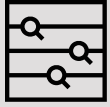
Corporate bylaws should establish as year-end one of the following: December 31, March 31, June 30 or September 30. Once the year-end is selected, any changes must be authorized by the Tax Authorities.

### Summary of taxation of natural persons

The Dominican Republic follows the territorial concept for the determination of taxable income. Dominican citizens are subject to income tax on their income from Dominican sources and from sources outside the Dominican Republic derived from investments and financial gains.

Foreign citizens will be subject to income tax on their Dominican source income from day one, regardless of where they receive payment for their work in the Dominican Republic. In addition,





# Tax System



income from sources outside the Dominican Republic derived from investments and financial gains will be subject to the Tax on Income from the third year of being tax residents. For tax purposes, a person will be considered a resident of the Dominican Republic if they spend more than 182 days in the country during a fiscal year, continuously or not. Resident individuals are taxed at graduated rates ranging from 0% to 25%. In principle, non-resident individuals pay a fixed 25% tax, however, the tax authorities apply a progressive scale of 0-25%. See also Current Tax Rates in the Other Taxes section.

## Gross income

In general terms, all remuneration for personal services rendered in the Dominican Republic is subject to Income Tax. The employer is taxed at 27% (on a monthly basis), as established in the Tax Code on supplementary benefits. This additional compensation includes housing, housing and auto subsidies, among others. However, the calculation of the fringe tax on vehicles is different and would be the subject of a more detailed analysis.

## Individual deduction

### Current deductions / credits

The deductions for natural persons admitted include:

- Annual exemption of DOP 416,220 (DOP 34,685 per month) for 2021, adjusted annually for inflation and social security contributions.

- Deduction of education expenses for direct dependents / non-salaried employees.
- These expenses include education at the basic, intermediate, technical and university levels. The deduction is limited to 10% of the individual's total taxable income.

## Individual tax compliance

### Declarations

Spouses are required to file separate tax returns covering their respective income.

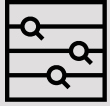
Income from common property is included in the husband's return, so it should not be included in the spouse's return. Individuals are required to file a tax return (form IR-1) only when income from sources other than wages, salaries and bonuses (where the employer withholds the tax) is received, or when these are not recorded on the local payroll.

### Tax payment

Employers are required to withhold tax on wages, salaries and bonuses on all earnings above DOP 416,220 per year (This amount is adjusted annually for inflation).

Christmas bonuses, Social Security contributions, dismissal and termination payments are not subject to Income Tax, according to the Labor Code.





# Tax System



## Current tax rates

Individuals pay taxes on all earnings that exceed DOP 416,220 annually. The following scale is for the year 2021-2022. These figures will be adjusted for annual inflation.

Annual Scale	Tax Rate
Up to RD\$416,220	Exempt
RD\$ 416,220.01 to RD\$ 624,329.00	15% of the surplus of RD\$416,220.01
RD\$ 624,329.01 to RD\$ 867, 123.00	RD\$31,216.00 plus 20% of the surplus of RD\$624,329.01
RD\$ 867,123.01 on above	RD\$79,776.00 plus 25% of the surplus of RD\$867,123.01

## Tax news

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# Sustainable Development Goals in Central America and the Dominican Republic



**The style of development that countries have adopted in recent decades is no longer sustainable (ECLAC, 2016), this leads to the need to consider a different style of development.**

The year 2015 marked the beginning of a new era on the international scene in the quest to unify the development goals of nations, 193 member countries of the United Nations signed the 2030 Agenda that gave life to the Sustainable Development Goals (SDGs). The 2030 Agenda represents a roadmap towards sustainable development that puts people at the center, from the perspective of inclusion. Implementing the 2030 Agenda brings challenges that vary in each region and country, however, there are megatrends such as population growth and population aging, growth of cities, technological innovations, weakening of the credibility of institutions, geopolitics, among others that have a global impact. As a region, Central America and the Dominican Republic present structural challenges to be solved, despite the efforts led by the Central American Integration System (SICA), there is still no unified strategy for SDG implementation and each country presents different levels of progress, with different approaches, institutions and legislation, which adds complexity. According to the SDG compliance index included in the Sustainable Development Report 2021 (1), Costa Rica is the best-ranked country in the region, occupying 50th position out of a total of 165

nations considered and achieving a score of 73.6 out of a possible 100 points. The first place in the ranking is occupied by Finland with a score of 85.9 and in the last place appears the Central African Republic with a score of 38.3.

The positions of the countries in the region are as follows:

Rank	Country	Score
50	Costa Rica	73.6
67	República Dominicana	70.8
88	Panamá	68.0
89	El Salvador	67.9
99	Nicaragua	66.3
112	Honduras	62.5
121	Guatemala	59.9

**Source:** Sustainable Development Report 2021, Tabla 2.1, pag. 10-11

But the 2030 Agenda also represents an important opportunity for the region as it includes priority issues such as the eradication of extreme poverty, the reduction of inequality in all its dimensions, inclusive economic growth with decent work for all, sustainable cities and climate change, among others (ECLAC).





# Sustainable Development Goals in Central America and the Dominican Republic



After the end of the armed conflicts in most of the countries of the region, there was an economic improvement due to the implementation of strategies aimed at greater insertion in the world market and strengthening of the service sector. However, social progress is still needed and it is difficult to turn economic progress into wellbeing for everyone, which still maintains high rates of migration of inhabitants, mainly to northern countries. Environmentally, it has a great diversity of environmental resources in its territory, with a forest cover of 39% of the surface area (greater than the world average), has a great biodiversity potential of 12% of the planet's total (ERCA, 2016) and has other resources such as water (2). The latter provides the region with global relevance, gives visibility to it at a very important moment in history, where a level of attention and awareness of the importance of the fight against climate change has been achieved. Embracing the green agenda and installing the necessary mechanisms and institutional infrastructure to receive sustainable investments has become a priority for our region. According to a report issued by Climate Bonds Initiative in March 2021 and sponsored by CABEL, the green bond market is still very incipient, only 6 issues have been made so far (including CABEL's), however there

is potential for more growth in green bonds in key sectors such as sustainable infrastructure, agriculture and blue economy. Diversifying projects and investing in climate compatible infrastructure to meet the emission reduction targets of the Paris Agreement are other opportunities identified in the report, in this regard there are key sectors such as renewable energy, low carbon transport, water cycle management and waste management.

Climate change is perhaps the greatest challenge humanity has ever faced, we are currently experiencing a global momentum where business owners and governments are increasingly aware, in our region each country has addressed this issue in different ways and has introduced policies and initiatives aimed at supporting the fight against climate change. The following is a summary:

## **(Disposition in the order of the SDGs Compliance Index presented above)**

**Source: Report published by Climate Bonds Initiative, March 2021**

### **Costa Rica**

As part of its Nationally Determined Contributions (hereafter NDCs) under the Paris Agreement, Costa Rica has defined a mitigation target of



# Sustainable Development Goals in Central America and the Dominican Republic



44% reduction in emissions versus business as usual operations by 2030. Costa Rica issued the National Decarbonization Plan, launched by the Ministry of Environment and Energy in February 2019, this plan includes goals such as:

- Achieve and maintain a 100% renewable energy grid.
- 70% of buses and taxi cabs will be zero-emission and passenger trains will be 100% electric.
- 100% of new commercial, residential, and institutional buildings designed and built with low-emission, climate-resilient systems.

## Dominican Republic

The Dominican Republic has defined a mitigation target of a 25% reduction in base year GHG emissions by 2030 under its NDCs. While the government does not have specific targets for the sector, it has several climate policies and initiatives in place, such as:

- Carbon tax, introduced in 2012
- Increased hydroelectric biodiesel capacity.
- Established a forestry working group to improve sustainability in the forestry sector.

The Dominican Republic's government is also seeking to phase out fossil fuel-generated electricity, which currently accounts for 90.5% of the country's installed capacity.



## Panama

Under its NDCs, Panama has specific sectoral climate targets, which focus primarily on increasing carbon sinks, renewable energy, and sustainable forestry: 38 • Increase renewable energy capacity by 15% by 2030 and 30% by 2050 compared to the base year of 2014 • Increase reforested areas by 1 million hectares by 2030. In addition to these targets, Panama plans to continue implementing the following climate policies: • Participate in international emissions trade • Boost investment in renewable energy sources such as solar, wind and biomass.

## El Salvador

El Salvador aims to establish a National Climate Change Policy Plan, which includes several regulatory framework goals within its NDCs:

- Strengthening the institutional and legal framework of the National Climate Plan by 2019.
- Establish a sectoral climate plan at the national level, including agriculture, water and infrastructure.

El Salvador's climate goals included in its Five-Year Development Plan (2014-2019) include the following:

- Reduce economic losses caused by climate variability in the agricultural sector by one percentage point of GDP.



# Sustainable Development Goals in Central America and the Dominican Republic



- Increase the number of municipalities at risk from early warning systems by 20%.
- Restore 10,000 hectares of salty forest and surrounding ecosystems
- Renew 30% of coffee plantations, thus ensuring their resilience to climate change.
- Reduce the number of threatened or endangered species by 10%.
- Reduce the consumption of ozone-depleting substances by 25%.

## Nicaragua

Nicaragua has defined the following goals in its NDCs:

- Achieve 60% renewable energy by 2030.
- Increase forest absorption capacity by 20% by 2030.

Nicaragua's National Climate Change Policy is currently in the discussion stage. It will outline the country's plans and will include the following aspects:

- Increasing agricultural resilience.
- Creating a low-carbon development strategy
- Solutions for human resettlement due to climate change
- Developing green infrastructure
- Achieving forest conservation and restoration
- Promoting knowledge, research and funding for climate change mitigation and adaptation.



## Honduras

Honduras has the following climate targets as part of its NDCs:

- Reduce national GHG emissions by 15% by 2030.
- Achieve 80% of electricity supply from renewable sources by 2038.

In the context of the country's NDC commitments, the Honduran government aims to continue its progress towards the creation of a climate policy framework, which includes:

- Developing a national climate change investment plan.
- Focusing on water resources, risk management, agriculture, forestry and biodiversity, and infrastructure and renewable energy projects, which are core priorities of the National Climate Change Agency.

## Guatemala

As part of its NDCs, Guatemala has defined targets of 11.2% (unconditional) to 22.6% (conditional) reduction in GHG emissions by 2030 compared to the usual scenario. These targets are incorporated into Guatemala's national development plan known as the K'atun 2032 National Development Plan.

The specific objectives included in the plan are:

- Achieve 80% of electricity from renewable energy by 2027.



# Sustainable Development Goals in Central America and the Dominican Republic



- Improve energy savings by 25% in the industrial and commercial sectors by 2027 compared to the 2013 baseline
- Reduce industrial wood fuel use by 15% by 2027 compared to 2013 baseline

Finally, COVID-19 came to delay the SDG implementation process, yet globally the climate, biodiversity and pollution crisis persisted, despite the pandemic (as highlighted by Mr. Liu Zhenmin in the 2021 Sustainable Development Goals report). Concentrations of key greenhouse gases continued to rise despite temporary emission reductions in 2020 linked to confinements and other measures in response to COVID-19. The effects of the pandemic include increases in unemployment rates impacting poverty rates, in addition to the anticipated significant impact on the educational deficiencies of a generation and the long-term impact on the productive capacity of countries. But it is also important to highlight that COVID-19 tested the capacity for adaptation, collaboration, innovation and resilience of human beings and this adds optimism that we will be able to face the challenges of the 2030 Agenda successfully.

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