



Ecuador News

Ecuadorian tax authorities have made significant changes to the reinsurance tax according to the new regulation that was published few days ago and that takes effect on all policies and endorsements issued on or after January 1st, 2015.

Please find below the transcription in the relevant section:

"Withholding Tax: Art. 13. Payments abroad.- It is considered deductible the expenses incurred abroad that are necessary and its destination is to obtain income, only if it is carried out the withholding tax and this payment represents to the beneficiary an income taxable in Ecuador. Will be deductible and not subject to income tax in Ecuador or withholding tax the following payments abroad:

Payments for reinsurance premiums, according to the following conditions:

- a) If ceded premiums do not exceed the percentage set by the insurance regulatory authority, the exempt amount of retention is 75% of its value; this means that only applies the withholding tax on the remaining 25%.*
- b) If ceded premiums exceed the percentage set by the insurance regulatory authority, the exempt amount of retention is 50%; this means that applies the withholding tax on the remaining 50%.*
- c) If the insurance company abroad is formed or domiciled in "tax havens" or jurisdictions with lower tax, the withholding tax will be set on the 100% of reinsurance premiums."*

Regarding a) and b) the insurance regulatory authority has not established yet the percentage that will be set to determine if there is an excess – they will in the next days - but it is most likely that this will apply only for Life, Health, Personal Accident and Automobile Insurance. In respect to c) please find enclosed the list of the countries considered "tax havens" or jurisdictions with lower tax according to Ecuadorian tax authorities .

Hereinafter instead of the usual withholding tax (reinsurance tax) of 0.88% that has been charged in the Ecuadorian market for the past years until now, the reinsurance tax will be calculated as follows:

- In the case of a) the new reinsurance tax will be 5.5%, that comes from 22% of 25%
- In the case of b) the new reinsurance tax will be 11%, that comes from 22% of 50%
- In the case of c) new reinsurance tax will be 22%, that comes from 22% of 100%

Another important modification is the change in the basis for the calculation of the ISD Tax (Foreign Transactions tax) which shall be applied now on the accounted ceded premium and not on the net transfer value of the premiums.