



GLOBAL  
EMPLOYER  
GUIDE

**ECUADOR**





## Basic Country Facts

### Full name

- Republic of Ecuador

### Capital

- Quito

### Main Languages

- Spanish (93%)
- Quichua
- Shuars

### Population

- 17.08 million

### Monetary unit

- United States Dollar

### Internet domain

- .ec

### International dialing code

- +593

### Currency

- United States Dollar



# STATUTORY LABOR REQUIREMENTS

## Probation Period

- A probationary period can be set up for 90 days

## Annual Leave

- Annual leave (including rest days) is legally set at 15 days after one year of employment.
- After five years of employment, employees are entitled to one extra day per year up to an additional 15 days

## Public Holidays

- New Year's Day (1st January)
- Carnival (24th to 25th February)
- Good Friday (10th April)
- Labor Day (1st May)
- Battle of Pichincha Day (24th May)
- First Cry of Independence/ Independence Day (10th August)
- Guayaquil Independence Day (9th October)
- All Souls Day (2nd November)
- Cuenca Independence Day (3rd November)
- Christmas Day (25th December)

## Maternity Leave

- Employers must offer up to 12 weeks paid maternity leave.
- Employers must pay 25% of the person's salary during this time.
- The other 75% is paid by social security.
- Mothers are also entitled to nine months of shortened work days (six hours as opposed to the full eight)

## Paternity Leave

- The employer must grant to the working father a paid leave of absence of ten days for the birth of his child, when it is a natural birth; and in multiple births or C-section, the leave is extended for five additional days.
- If the child is premature or needs special care, the leave is extended for eight more days.

## Sick Leave

- Employees are entitled to sick leave of up to two months at 50% of their salary.
- Employers must certify sick leave of less than three days with the social security medical center.

## Work Hours

- The norm is 40 hours a week with 8 hours daily.
- The working day can start anywhere from 6 to 10 am and finish 8 to 10 hours later, depending on the type of work



## Overtime

- Overtime is considered any hours additional to 8 in one day, or 40 in one week.
- It is paid at 150%, or 200% if overtime hours are after midnight.
- Overtime may not exceed four hours per day or twelve hours per week.
- Overtime occurring before midnight is considered “supplementary hours” and is paid with a surcharge of 50%. Overtime occurring from midnight to 6:00 a.m. is considered “extraordinary hours” and is paid with a surcharge of 100%.
- Work during Saturdays and Sundays must be paid with a 100% surcharge if these are obligatory rest days.

## Notice Period

- For dismissal with just cause and without just cause (“despido intempestivo”): no statutory length of notice period.
- Art. 14 of the labor code establishes that no worker can be dismissed if he/she has less than one year of tenure. In practice, this implies a “notice period” of 3 months at 9 months of tenure.
- In case of redundancy, article 193 establishes a 30 prior notice for the termination of all employment agreements due to final closure of the company

## Severance

- Employees who are terminated before their contract, either due to a business closure or otherwise, normally collect severance pay as well as bonus called a desahucio.
- They are entitled to receive one paycheck for every year employed by the company up to 25 months of payments.
- Desahucio is typically 25% of the employee's monthly salary multiplied by how many years an employee has served the company

## 13th Month

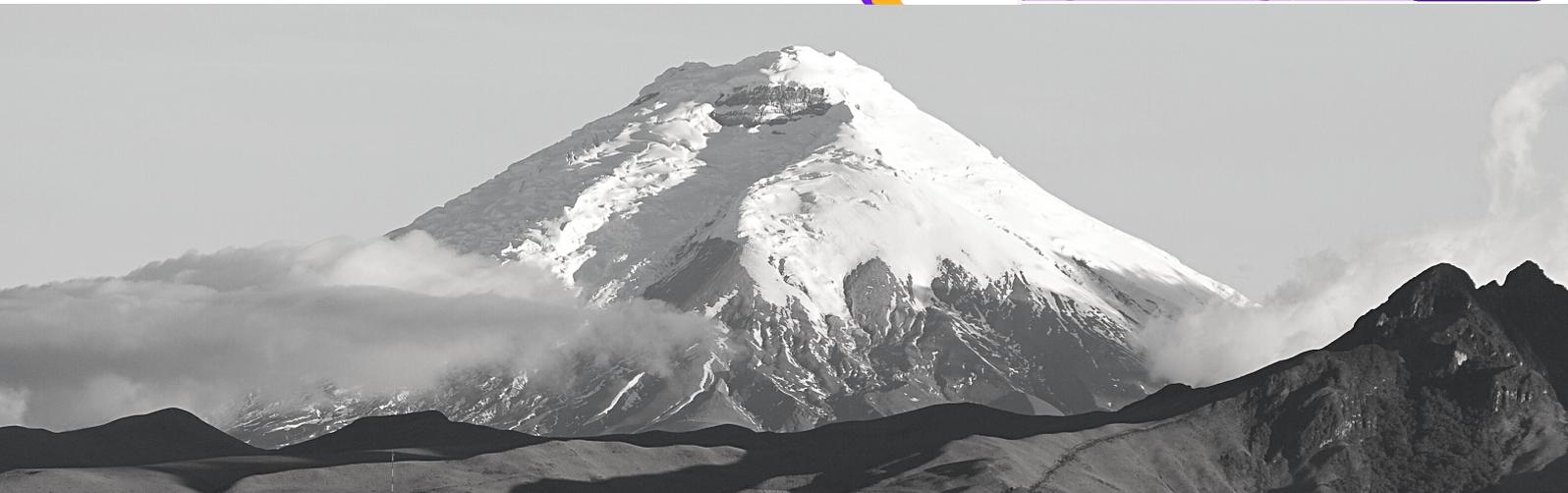
- The 13th salary is an annual bonus companies pay their staff at the end of each year.
- The amount should be paid in full by 22 December
- However, employees can choose to have this bonus paid to in monthly portions.



## Income Tax

- Ecuador currently taxes its citizens and foreigners mostly on their Ecuador-source income, which is defined as any income derived from activities executed in Ecuador, regardless of where the income is received or paid.
- Income generated abroad by Ecuador-resident individuals, local or foreign, is tax exempt provided that an income tax has been paid abroad; income received from low-tax jurisdictions countries is not excluded.
- Non-residents are subject to tax on their Ecuador-source income regardless of their domicile or place of residence.
- Non-residents are subject to 25% income tax on income received from local sources, which is withheld at source.
- Payments made to non-residents occasionally working in Ecuador, when not charged to an Ecuadorian company or branch of a foreign entity, do not give rise to income tax.
- Foreigners with resident visas are subject to income tax on any earnings and are not entitled to exclusion of income for periods of temporary absence from Ecuador.

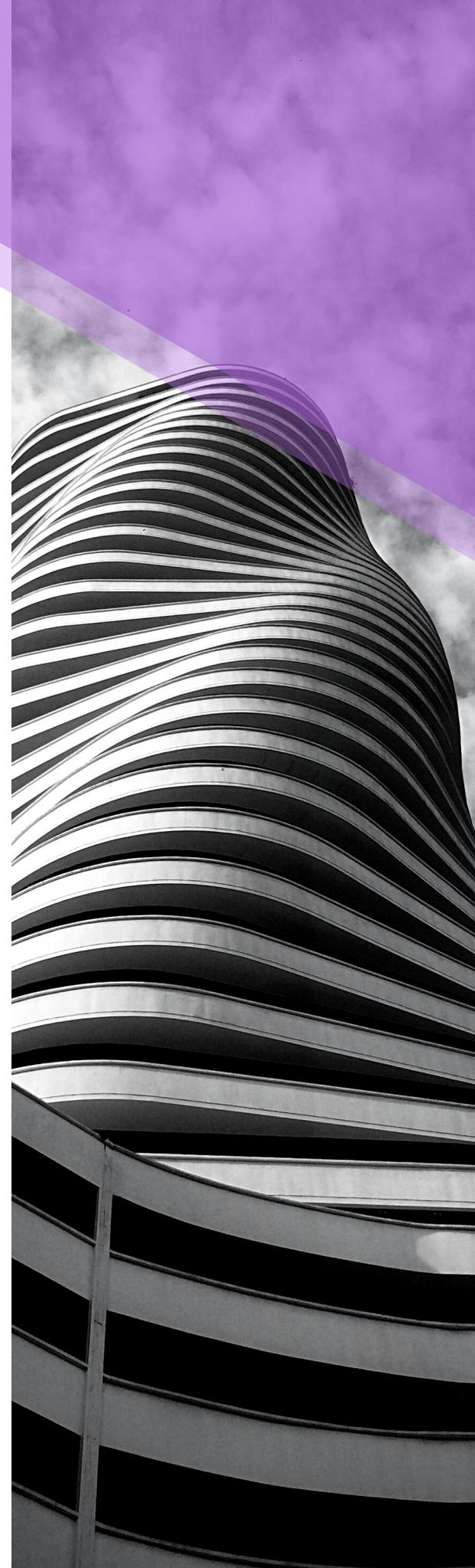
Taxable income (USD)		Tax on column 1 (USD)	Tax on excess (%)
Over (column 1)	Not over		
0	11,315	0	0
11,315	14,416	0	5
14,416.01	18,018	155	10
18,018.01	21,639	515	12
21,639.01	43,268	950	15
43,268.01	64,887	4,194	20
64,887.01	86,516	8,518	25
86,516.01	115,338	13,925	30
115,338.01	onwards	22,572	35



## Social Security

- The Social Security Institute of the government manages the social security system, which covers health benefits, pensions and certain social payments.
- All private, public and foreign employees and self-employed professionals are covered by social security legislation.
- Social security contributions must be paid to the Ecuadorian Social Security System. There are two different rates, according to the individuals' employment relationship.
- Private employees under an employment relationship will contribute at the rate of 9.45% of remuneration arising from employment (except certain statutory social benefits received). Special rates apply to employees working on special sectors of the economy. Voluntary contributors can contribute at a rate of 20.6% over their income.
- The employer contribution amounts to 12.15% of total remuneration.

Contribution	Employer	Employee
<b>Social Security Contribution</b>	12.15%	9.45% (Private Employees) 20.6% (Voluntary Contributors)



## Deductible Expenses

- Social security contributions are deductible against income arising from employment.
- Individuals are allowed to deduct personal expenses (including those of family members) of up to 50% of total income but not more than 1.3 times the exempt portion of the PIT table (USD 11,315 for fiscal year 2020).
- The total maximum deduction of personal expenses will amount to USD 14,709.50 according to the following general limits and parameters:

Concept	Exempted portion limit	Maximum deduction (USD)
Housing	0.325 times	3,677.38
Education	0.325 times	3,677.38
Meals	0.325 times	3,677.38
Dressing	0.325 times	3,677.38
Health	1.300 times	3,677.38

- Since 2020 individuals earning a net income greater than USD 100,000 cannot deduct its personal expenses for the determination of the taxable base. Notwithstanding, such individuals may deduct health expenses corresponding to catastrophic or rare diseases (dependents inclusive), duly certified by the competent national health authority.
- An annual personal allowance of USD 11,315 represents the minimum taxable income in the current progressive PIT table, which means that an individual will pay income tax when one's income exceeds USD 11,315.

## Deductible Expenses

### Employment Deductions

- Social security contributions are deductible against income arising from employment.

### Personal Deductions

- Individuals are allowed to deduct personal expenses (including those of family members) of up to 50% of total income but not more than 1.3 times the exempt portion of the PIT table (USD 11,315 for fiscal year 2020).

### Personal Allowance

- An annual personal allowance of USD 11,315 represents the minimum taxable income in the current progressive PIT table, which means that an individual will pay income tax when one's income exceeds USD 11,315.



## Immigration

- All foreign nationals must obtain temporary visas for labor activities to work legally in Ecuador.
- Temporary residence visas are valid for one or two years and are renewable for one or two years each time, at the discretion of the Ministry of Foreign Affairs.
- Temporary residence visa under labor contract:
  - This type of visa allows expatriates to work in an Ecuadorian company by being part of the local payroll and signing a labor contract.
  - The Ecuadorian branch must be duly incorporated with all documentation updated.
  - In addition, the share capital of the company must be at least USD12,500.
- Temporary residence visa under assignment letter:
  - This visa allows assignees to work in Ecuador and receive their compensation from a foreign company.
  - They maintain a labor relationship with the foreign company.
  - It must meet the same corporate requirements listed above, plus a training agreement between the companies and an assignment letter.
- Temporary residence visa for legal representation:
  - This type of visa allows expatriates to perform temporary legal representation activities in an Ecuadorian company (for example, general managers, presidents and attorneys).
    - The legal representative must be designated by an appointment or a power of attorney.
- Permanent residence visas are valid for an indefinite period of time.
  - This type of visa allows individuals to obtain an Ecuadorian identification, as well as to work or not work for an Ecuadorian company.
  - In this regard, they are not required to change their migratory category if they are employed by a local company.
  - Foreign nationals can obtain permanent residence visas if they have stayed in Ecuador as a temporary resident for 21 months.



Type of Visa	Documentation	Validity	Eligibility
<b>Temporary Residence visa*</b>	<ul style="list-style-type: none"> <li>• Appointment requested for Temporary Residence</li> <li>• Visa Application Form</li> <li>• Passport with a minimum validity of 6 months</li> <li>• Original certificate of criminal record</li> <li>• Ecuadorian criminal record issued by the Ministry of the Interior</li> <li>• Migratory movement issued by the Ministry of the Interior</li> <li>• Accredited legal means of life that allow the subsistence of the applicant and his/her dependent family group.</li> </ul>	<ul style="list-style-type: none"> <li>• 1 to 2 years</li> </ul>	<ul style="list-style-type: none"> <li>• It is for expatriates wanting to work in an Ecuadorian company by being part of the local payroll and signing a labor contract.</li> <li>• Individuals applying for a temporary residence visa under assignment letter must also have a training agreement between the companies and an assignment letter</li> <li>• Individuals applying for a temporary residence visa for legal representation are only eligible if the legal representative is designated by appointment or power of attorney</li> </ul>
<b>Permanent Visa Residence</b>	<ul style="list-style-type: none"> <li>• Completed Visa application form</li> <li>• Passport with a minimum validity of 6 months</li> <li>• Original certificate of criminal record</li> <li>• Ecuadorian criminal record issued by the Ministry of the Interior</li> <li>• Migratory movement issued by the Ministry of the Interior</li> <li>• Accredited legal means of life that allow the subsistence of the applicant and his/her dependent family group.</li> </ul>	Indefinitely	<ul style="list-style-type: none"> <li>• Foreign nationals can obtain permanent residence visas if they have stayed in Ecuador as a temporary resident for 21 months.</li> <li>• Have married or formed a legally recognized civil union with an Ecuadorian citizen;</li> <li>• Be a minor or disabled person dependent on an Ecuadorian citizen, or person with permanent residency status;</li> <li>• Be related to an Ecuadorian citizen or permanent resident of Ecuador</li> </ul>

\*This includes the following: -  
 Temporary residence visa under labor contract  
 Temporary residence visa for legal representation  
 Temporary residence visa under assignment letter



## Value Added Tax (VAT)

- Ecuador's general VAT rate is 12%, with other rates including 0% that can apply to certain transactions.
- The Value-added tax (VAT) is administered by the Ecuadorian Internal Revenue Service (IRS)

VAT	
Standard	12%
Zero	0%

## Withholding Tax

### Dividends

- Dividends paid to a nonresident are subject to a 7% withholding tax if the payer company's income was taxed at the 28% corporate income tax
- Dividends paid to nonresident are subject to a 10% withholding tax if the payer company's income was taxed at a rate of 25% or lower
- Dividends paid to a resident corporation are not subject to withholding tax
- Dividends paid to a resident individual are subject to WHT at a rate equal to the difference between the maximum progressive personal income tax rate and the applicable corporate income tax rate for the year to which the dividends relate, which could be 22%, 25% or 28% depending on the year
- The withholding tax rate will be 7% if the applicable corporate tax rate was 25% or 10% if the corporate tax rate was 25%, or 13% if the corporate tax rate was 22%

### Interest

- Interest paid on loans obtained from nonresident financial institutions, specialized non-financial entities qualified by the Ecuadorian control authorities and multilateral organizations is not subject to withholding tax, unless the interest rate exceeds the maximum rate set by the central bank
- Any excess interest must be subject to withholding tax at the 25% rate (unless the rate is reduced under a tax treaty), or it will not be deductible for the Ecuadorian company.
- All interest payments made abroad are subject to withholding tax at the 25% rate (unless the rates is reduced under a tax treaty), and any excess interest exceeding the maximum rate set by the central bank will be considered nondeductible by the Ecuadorian payer company.

### Royalties

- Royalties paid to a nonresident are subject to a 25% withholding tax, unless the rate is reduced under a tax treaty.
- The rate increases to 35% when royalties are paid to a recipient in a tax haven or low tax jurisdiction

### Technical Service Fees

- Technical service fees paid to a nonresident are subject to a 25% withholding tax, unless the rate is reduced under a tax treaty.
- The rate increases to 35% where fees are paid to a recipient in a tax haven or low tax jurisdiction



## WHT

<b>Dividends</b>	<b>Nonresident</b>	<ul style="list-style-type: none"> <li>Dividends paid to a nonresident are subject to a 7% withholding tax if the payer company's income was taxed at the 28% corporate income tax</li> <li>Dividends paid to nonresident are subject to a 10% withholding tax if the payer company's income was taxed at a rate of 25% or lower</li> </ul>
	<b>Resident</b>	<ul style="list-style-type: none"> <li>22%, 25% or 28% depending on the year</li> <li>The withholding tax rate will be 7% if the applicable corporate tax rate was 25% or 10% if the corporate tax rate was 25%, or 13% if the corporate tax rate was 22%</li> </ul>
<b>Interest</b>	<ul style="list-style-type: none"> <li>25% unless exempt or reduced</li> </ul>	
<b>Royalties</b>	<ul style="list-style-type: none"> <li>Nonresident: - 25%</li> <li>Nonresident in a tax haven: - 35%</li> </ul>	
<b>Technical Service Fees</b>	<ul style="list-style-type: none"> <li>Nonresident: - 25%</li> <li>Nonresident in a tax haven: - 35%</li> </ul>	



## Termination

- Contracts can be terminated with just cause without severance (with approval from labor authority) for:
  - Lack of discipline
  - Dishonesty
  - Serious offense against the employer
  - Serious incompetence
  - Non-compliance with regulations
- For dismissal with just cause and without just cause (“despido intempestivo”): no statutory length of notice period.
- Art. 14 of the labor code establishes that no worker can be dismissed if he/she has less than one year of tenure. In practice, this implies a “notice period” of 3 months at 9 months of tenure.
- In case of redundancy, article 193 establishes a 30 prior notice for the termination of all employment agreements due to final closure of the company
- Employees who are terminated before their contract, either due to a business closure or otherwise, normally collect severance pay as well as bonus called a desahucio.
- They are entitled to receive one paycheck for every year employed by the company up to 25 months of payments.
- Desahucio is typically 25% of the employee's monthly salary multiplied by how many years an employee has served the company

## Statutory Benefits

- These are mandatory benefits as postulated by law
- These include probationary period, annual leave, public holidays, sick leave, maternity leave, paternity leave, overtime pay, notice period, severance pay, and 13th month pay
- Statutory benefits also include social security benefits

### Statutory Benefits

Probationary Period

Annual Leave

Public Holidays

Sick Leave

Maternity Leave

Paternity Leave

Overtime Pay

Notice Period

Severance Pay

13th Month Pay

Social Security Benefits





## Payments and Invoicing

- Tax on income from wages is withheld at source by employers.
- Taxpayers might not be required to file returns if 100% of their gross income for the calendar income year consists of employment income from one employer.
- Otherwise, in the following year, taxpayers must file returns between 10 March and 28 March, depending on the ninth digit of the individual's taxpayer identification number.
- Married persons are taxed separately, not jointly, on all types of income.
- The fiscal year runs from 1 January to 31 December.
- Late filers must pay a monthly penalty equal to 3% of the tax due, up to 100% of the tax due, plus monthly interest at a low rate.



## Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Ecuador ranked 129th in the World in 2019 in terms of ease of doing business.



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