Executive Summary

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Principal Tax Liabilities

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Provision of Labor or Services Independently or in a Dependent Manner

During the first 10 days of each month, employers shall proceed to file and pay any taxes retained from their employees and from any personnel having rendered or provided any service in an independent manner. Said payment shall correspond to taxes retained to personnel during the month immediately preceding the month when payment was made. Payment shall be made by cashier's check issued to the Internal Revenue Collector.

Business and Manufacturing Enterprises

During the first 15 days of each month all individuals or corporations and sole owner businesses whose actual tax paying rate (the one resulting from dividing liquidated taxes during the fiscal period with the gross income for the same fiscal period) were less than or equal to 1.5% shall pay the appropriate advances on the basis of twelve equal installments resulting from applying 1.5% of such gross income as were declared during the preceding fiscal year. If the actual tax paying rate were higher than 1.5%, one twelfth of such tax as were liquidated in the preceding income-tax report shall be paid in advance on a monthly basis.

No 1.5% advance shall be paid by any individuals engaged in business or manufacture if their annual income was equal to or under RD$5,000,000.00. This advance shall be paid by cashier's check issued to the Internal Revenue Collector.

Tax to Salaried Employees

An income tax shall be assessed on any income accruing from any work rendered under a relationship of dependency, by practicing a profession or liberal occupation, commercial or investment operations or financial gains abroad. A Table of Retentions to individuals is provided under Article 296 of the Tax Code, therein providing for the following retentions:

- Income of up to RD$276,422.00 — exempt
- RD$276,422.01 to RD$414,632.00 — 15% (RD$20,732.00)
- RD$414,632.01 to RD$575,878.00 — 20% of the excess (RD$32,249 plus RD$20,732)
- From RD$575,878.01 to RD$900,000.00 — 25% of the excess (RD$81,031 plus RD$52.981)
- From RD$900,000.01 onwards — 30% of the excess plus RD$134,012.00

Until March 15 of each year, taxpayers shall file separately their income tax return on taxes retained and paid during the preceding calendar year, for salaries paid to employees and to any independent personnel having performed any kind of labor or service.

The 30% maximum marginal rate provided shall be reduced annually down to 25% of assessable net income or taxable income, upon applying the following schedule:

- For the 2007 fiscal year — 29%
- For the 2008 fiscal year — 27%
- For the 2009 fiscal year — 25%

Individuals receiving income from different sources shall file an income tax return of their income by March 31 each year. Such income tax report shall include all income accruing during the preceding calendar year.

The following shall be exempted from income tax payment:

- Income of up to RD$276,422.00 (amount to be adjusted for inflation annually)
- The salaried employees with income not greater than the exemption aforementioned.

- Any dividends paid by a stockholding company to its shareholders either in shares or cash whenever such retention is dully executed in accordance to Article 308 of the Tax Code shall have been made.
- Interest paid to individuals or corporations by financial entities regulated by the Superintendence of Banks and the Superintendence of Securities.

Taxes to Corporations

Corporations domiciled in the Dominican Republic shall pay thirty per cent (30%) on their taxable income for the fiscal year 2006. According to these articles the following shall be deemed as corporations:

a) Capital associations;

b) Public sector enterprises on their income of a business nature and other entities;

c) Non divided estates;

d) Partnerships

e) Factual associations

f) Irregular associations

g) Any other manner of organization not expressly provided herein the purpose whereof were to make a profit or gain that were not expressly declared to be exempted from this tax.

Such tax as is assessed to the above cited corporations shall be reduced annually down to 25% of net income upon applying the following schedule:

- For the 2007 fiscal year 29%
- For the 2008 fiscal year 27%
- For the 2009 fiscal year 25%

Fiscal Losses

In the event of any losses sustained in its fiscal exercise by a corporation, same shall be deducted from any gains obtained during the fiscal periods immediately following any such losses, provided however these shall not extend over five years, according to the following rule:

In no case shall losses proceeding from other entities where a tax payer shall have carried out any process of reorganization be deducted from any current or future period., nor shall any as resulted from any non deductible expenses.

Losses may only be deducted up to 20% of their total amount during the first three periods, at the rate of 20% in each period in an independent manner (non cumulative). No losses shall be deducted during the fourth and the fifth period except under the following conditions:

Fourth Period: Up to 20% of any such losses, without in any case exceeding 80% of Net Assessable Income or Taxable Income for that same period.

Fifth Period: Up to 20% of any such losses, while in no case exceeding 70% of Net Assessable Income or Taxable Income for that same period.

Any corporations filing losses during their first fiscal period, may have any such losses offset up to 100% during the second fiscal period; if this were not possible, it may be done upon complying with the same requirements as provided in the above paragraphs.

Tax on the Transfer of Manufactured Goods and Services (ITBIS)

During the first 20 days of each month any individuals or corporations who transferred manufactured goods or services or were importers of manufactured goods shall file and pay the tax on the Transfer of Manufactured Goods and Services (ITBIS) by cashier's check issued to the Internal Tax Collector.

Such payment shall cover the balance in favor of the General Internal Tax Revenue Office (DGII) resulting from any excess of ITBIS billed to customers in rendering goods and services to which this tax were assessed over any ITBIS advanced to suppliers in the acquisition of goods and services so as to produce income to which this tax were assessed or such values as were paid to Customs in introducing to the country any goods assessed therewith that were used in producing such goods and services as such a tax were in turn assessed.

A 10% surcharge shall be applied in case of any delay or noncompliance in paying this tax during the first month and 4% for each additional month, besides 2.58% interest for each month or fraction of a month. These considerations shall not be deductible from net assessable taxes or taxable income when filing tax returns.

If payment of any such tax became due on a holiday, same may be paid on the following business day with no surcharge or interest payment whatsoever.

The aforementioned statement must be executed even in those cases that results a balance in favor of the tax payer, or in other words, that the same has advanced more ITBIS to its suppliers than the one invoiced to its clients.

Real Property Tax

A 1% tax is assessed on any real property designed for private dwelling or for business or manufacturing operations the value whereof including the land lot it is built on exceeded RD$5,000,000.00. This is subject to annual adjustment for inflation.

A 1% tax of their actual value shall be assessed on non constructed urban lots without the RD$5,000,000.00 exemption, which will therefore only apply to built lots. The only exception shall be the case when owner(s) have reached the age of 65 years, provided said property had not changed owners in the last 15 years and its owner were to own but that one single real property.

This tax shall be filed during the first 60 days of each month and shall be paid in equal installments - 50% on March 11 each year and the remainder 50% on September ll of the same year.

Obligations Related to the Assets Tax.

An Assets Tax shall be applied to all assets appearing in a taxpayer's general balance not adjusted by inflation, after making the appropriate deductions for depreciation, amortization, provision for bad debts, investments in stock in other companies, rural properties, any property deemed as real property due to the nature of the agricultural operations thereon and any tax advances paid.

Crediting Assets Tax Against Income Tax

Any amount liquidated respecting this tax shall be deemed to be a credit against any income tax payable during the relevant fiscal period. In the event any such liquidated amount were equal to or higher than the assets tax payable, any payment obligation shall be deemed extinguished. If after due payment thereof there was a difference payable on this amount that were higher than the relevant income tax, any such difference shall be paid in two equal installments.

Exemptions from Assets Tax

The following shall be exempted from this tax:

- Any corporations that were income tax exempted;
- Any investments that were defined as capital intensive in the regulation issued by the Internal Revenue Office for:
- Employing more capital than other factors of production in turning out goods and services;
- The total value of any net fixed assets acquired (machinery, equipment, real and personal property) exceeds 50% of total assets.
- Any investments that due to the nature of the business had a period of installation, production and start up of operations longer than a year.

The above means that no assets tax shall be paid by any business that were operating under any law contemplating fiscal exemptions in the area of income tax.

Such investments are regulatorily defined as capital intensive by the Internal Revenue Office or such which due to their nature, had a cycle of installation, production and start up of operations longer than a year, whether undertaken by new or already existing enterprises, may benefit from a temporary exclusion from this tax after duly proving that their assets can be rated as new or are the result of a capital intensive investment according to such criteria as are defined in the regulation.

Any taxpayers that file losses in their annual income tax return may request a temporary exemption from assets tax. Any such request shall be made at least three months before filing the appropriate income tax return.

The assets tax report shall be filed along with the income tax return of the company, 50% of any such tax to be paid at the time of filing and the remaining 50% six months later. If any extension to file the income tax return were granted, the term for complying with the statement and payment of the tax on assets shall be automatically extended.

Zero Rate for Exporters

A zero rate shall be assessed on any goods designed for exportation. Exporters shall be entitled to a deduction of the value of such tax as would have been assessed on the purchase of any goods designed for exportation. If any balance remained in favor of exporter, such a balance shall be reimbursed to the Internal Revenue Office. The same shall apply to any Selective Consumer Tax paid by exporters, provided both ITBIS and Selective Consumer credits were reflected by said exporters in a recurrent manner during 6 months or more. To this end, an application for reimbursement or compensation shall be addressed to the Internal Revenue Office which shall have a term of two month to reply; if no reply were received during such term, exporter shall be authorized to have any such balance offset against any other tax except any tax retained to a third party. It may even be offset against a tax retained on the occasion of any dividends paid in cash.

Retentions at the Source. Payments Abroad in General.

Thirty percent (30%) of any assessable income from a Dominican source that were paid or credited to account to any individuals that were not residing or were not domiciled in the Dominican Republic, other than interest paid or credited to account to financial agencies abroad or any dividends thereon, shall be retained and given entry by the Tax Administration as sole and final tax payment. Such a rate shall be gradually reduced down to 25% again in 2009.

Interest Paid or Credited Abroad

Ten percent (10%) of any interest from a Dominican Source that were paid or credited on account of loans secured with credit agencies abroad shall be retained and given entry by the Tax Administration as sole and final tax payment.

Designation of Retention Agent

Corporations and sole owner enterprises shall act as retention agents whenever paying or crediting to account any considerations to other individuals or non divided estates, as well as to other non tax exempted entities, except corporations. Such retentions as are provided herein shall be for the following percentages of gross income:

a) 10% of any amounts paid or credited to account for any rental or lease of any kind of real or personal property, as payment on account;

b) 10% of any fees, commissions and other remunerations or payments for the rendering of services in general by individuals other than under a relationship of dependency the provision whereof required the direct intervention of a human resource, as payment on account;

c) 15% of any prizes or gains from any lottery, "fracatán", lotto, lotto quiz, electronic games, bingos, horse races, betting banks, casinos and any other kind of prize offered through promotion or advertising campaigns, as final payment

d) 5% of any payments effected by the State or any of its agencies, therein including state enterprises and decentralized and autonomous bodies, individuals and corporations, for the acquisition of goods and services in general that were not performed under a relationship of dependency, as payment on account;

e) 10% for any other type of income not expressly contemplated herein, as payment on account. Any payment made hereunder shall be deemed as a payment on account and shall assessed on the basis of a presumed net income in the following manner:

a) Payments to cover cargo or passenger transportation services on the basis of a presumed net income of 20% of any gross amount paid, so that any retention resulting there from shall be equal to 2% of any such amount.

b) Payments to cover non personal services retained. Such non personal services shall include, but shall not be limited to fumigation, cleaning, electrical and/or mechanical repairs, as well as any masonry, carpentry, painting, cabinet-making and plumbing, on the basis of a net income equal to 20% of the gross value paid, so that any retention resulting there from shall be equal to 2% of such amount.

c) Payments to contractors, engineers, master constructors and related occupations for any building or construction of civil works, such as highways, roads, waterworks, sewage and others, on the basis of a net income equal to 20% of the gross value paid, so a 2% retention of such amount shall result.

d) In the event of assignment of any personal property subject to registration, 10% on the basis of a presumed net income of 20% of the gross value of the property sold or assigned shall be assessed, so that any retention resulting there from shall be equal to 2% of said amount.

e) Any interest of any nature that were paid in the Dominican Republic by sole owner business and corporations in general other than regulated financial agencies shall be subject to a 10% retention, provided beneficiary were not a corporation.

Tax on the Organization of Companies

The organization of joint stock companies, stockholding companies and corporations shall be subject to a tax of 0.5% of authorized corporate capital and shall in no case be under RD$1,000.00. This tax shall also be applied to any factual associations and partnerships and shall be computed on the basis of such capital as were agreed in the contract or agreement where under the company was organized. The same rate shall be applied to any capital increases, in addition to the 0.5% tax and a 1.30% stamp tax.

This tax shall be paid to the Internal Revenue Office and the relevant payment receipt shall be presented to the Mercantile Registry Directorate and to any other public or private agency requiring registration of the organizational documents of the company or factual organization formed.

Selective Consumption Tax

A Selective Consumption Tax shall be assessed on the assignment of a number of production goods both at the manufacturing level and to their importation, as well as to the rendering or provision of services. The following rate shall be applied to services:

a) 10% to communications

b) Specific percentages by liter of absolute alcohol;

c) Specific percentages by cigarette pack.

This tax shall be paid by any individuals, associations or enterprises, whether local or foreign, producing or manufacturing these goods both at the final stage of the process and when their intervention took place through services rendered by third parties; by any importers, whether on their own account or on account of any third parties, of such goods as this tax were assessed to, and to any as rendered any services to which this tax were assessed.

This tax shall be paid during the first 20 days of the month following the period comprised in the tax statement. In the case of importation, it shall be paid jointly with any custom taxes or tariffs.

Casinos

During the first 5 days of each month, casino owners shall pay any taxes for the immediately preceding month. Such a tax shall be liquidated on the basis of the number of casino tables and the number of slot machines in operation as well as the location of business.

Duties by Taxpayers

Taxpayers are under the obligation to comply with such formal duties as are provided under the Tax Code, therein including:

a) Enrollment in the National Taxpayers Registration (RNC by its Spanish acronym);

b) Advise any change of address, corporate name, telephone number, business operation or any other as might alter his or her tax responsibility.

c) Carry such accounting books and records as were required.

d) File tax returns in consistency with such documents and information as were required and provide such clarifications as were requested;

e) Appear before the Internal Tax Offices whenever required;

f) Facilitate any inspections and verifications by tax officers,

g) Advise any sale, liquidation or any other event within a term of 60 days to secure the relevant authorization from the General Internal Tax Directorate.

Rights by Taxpayers

The main rights assisting taxpayers are the following:

a) Right to an extension

b) Right to payment facilities

c) Right to exemption of advances

d) Right to compensation

e) Right to information on any actions

f) Right to confidentiality

g) Right to file different administrative and judicial remedies.

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