



Flash Fiscal



Dominican Republic: Executive Branch introduces Draft Tax Modernization Law (Tax Reform 2024)

On October 8 of this year, the Executive Branch deposited the 2024 Tax Reform project, entitled "Fiscal Modernization Law", before the National Congress. It should be noted that the aforementioned bill addresses changes for various sectors.

Below is a summary of the measures and taxes affected, accompanied by a comparison with the current tax regime:

	Draft Tax Modernization Law	Current Tax Regime
Income Tax (IT)		
1	<p>Concepts would be added to what is considered Dominican source income, for income tax purposes, as follows:</p> <p>a. Income derived from the sale of goods or provision of services received by non-residents to the extent that they have been made through platforms or technologies located on the internet, and where the beneficiary is located in the country.</p> <p>The above would be applicable to payments or accruals, when they are made by non-resident natural or legal persons, but when the</p>	<p>At present, there is no mention of electronic commerce from a source perspective.</p>



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	beneficiary of the good or service is located in the Dominican Republic. b. Income derived from e-commerce in general.	
2	A percentage of the income generated by foreign companies that carry out certain economic activities in the Dominican Republic would be deemed Dominican-sourced income, as follows: a. Presumed income for foreign transportation companies: 15%. b. Presumed income for foreign insurance and reinsurance companies: 15%.	Articles 274 and 275 of the Dominican Tax Code ("DTC") provide the following percentages for presumed income: a. Presumed income for foreign transport companies: 10% b. Presumed income for foreign insurance and reinsurance companies: 10%
3	A new range would be added to the Personal IT ("PIT") scale: individuals who generate above DOP 2,400,000.00 per year would be subject to a rate of 27%.	Currently, individuals are subject to PIT rates of 15%, 20% and 25%. In other words, individuals who generate annual income above DOP 867,123.01 are subject to a 25% PIT. There are no additional tax brackets for higher income.
4	Individuals who only generate income in connection with wages received in a work-dependent relationship, and whose income is greater than DOP 624,329 per year, would be required to file an annual Individual Income Tax Return ("IR-1 Form").	Individuals whose only source of income is subject to payroll withholding due to dependency relationship, are exempt from filing an IR-1 Form.
5	The deduction of educational expenses for individuals would be eliminated.	Law No. 179-09 allows individuals with dependents in undergraduate or postgraduate degrees to deduct up to 25% of the annual tax exemption (i.e., DOP 104,055.00), as long as this does not exceed 10% of the taxpayer's taxable income.
6	Dividends obtained by individuals or legal entities from entities abroad would not be subject to local IT, provided that a withholding greater than or equal to 10% is applied in the country of origin.	Article 269 of the DTC does not discriminate against the rate applied abroad for the purpose of paying IT. However, potential tax credit for such withholdings could apply.
7	Interest paid or credited to individuals would be subject to a 10% withholding, as payment on account of the IT. The remaining amount of the net taxable income	Interest paid or credited to individuals are subject to a 10% withholding, as a single and final payment of the IT.

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	<p>would be declared and paid the corresponding IT by the taxpayer.</p> <p>The paragraph that indicates that securities exchanges will be the withholding agent for interest paid on securities instruments would be deleted.</p>	<p>For securities instruments, the securities exchanges act as the withholding agent.</p>
8	<p>The figure of collection agent (makes withholdings on the sales made) would be established up to 5% and determinable by the Administration.</p> <p>Withholdings made by public entities as payers would remain at 5%, unless the provider issues an electronic tax receipt (e-CF).</p>	<p>There is no figure of collection agent.</p> <p>There are no exceptions to the 5% withholding to be applied by public entities.</p>
9	<p>Advanced IT payments would not apply to individuals and microenterprises.</p> <p>Small businesses would pay advances based on 40% of the tax paid from the previous year. Advanced Corporate IT ("CIT") payments would be paid in 4 installments, every three months (quarterly), in accordance with the following proportion:</p> <ol style="list-style-type: none"> a. The first payment would amount to 5% of the tax paid during the previous fiscal year. b. The second and third payments would amount to 10% of the tax paid during the previous fiscal year. c. The fourth payment would amount to 15% of the tax paid during the previous fiscal year. <p>Medium-sized companies would pay advances based on 60% of the tax settled from the previous year. Advanced CIT payments would be paid in 4 installments, every three months (quarterly), in accordance with the following proportion:</p> <ol style="list-style-type: none"> a. The first and second payments would amount to 10% of the tax paid 	<p>Advanced IT payments apply to individuals and legal entities regardless of size. Currently, these advanced IT payments are determined as follows:</p> <ol style="list-style-type: none"> a. For individuals, these are determined based on the PIT settled in the previous fiscal year. b. For legal entities, advanced CIT payments are determined based on the CIT settled on the previous fiscal or 1.5% of the previous year's income, whichever is greater. <p>Individuals pay advances in the following proportion: 50% in the sixth month of the fiscal year, 30% in the ninth month and 20% in the twelfth month.</p> <p>Legal entity pays advances on a monthly basis and in equal installments.</p>

	<p>during the previous fiscal year.</p> <p>b. The third and fourth payments would amount to 20% of the tax paid during the previous fiscal year.</p>	
10	The solid waste contribution would not be considered as a deductible expense for CIT purposes.	The solid waste contribution is considered as a deductible expense for CIT purposes.
11	Newly incorporated micro and small enterprises would be exempt from paying IT during the first 3 years of being incorporated.	Newly incorporated micro and small enterprises are subject to IT during the first 3 years of being incorporated.
Value-Added Tax (VAT)		
12	The name of the Tax on Transfers of Industrialized Goods and Services (ITBIS, by its Spanish acronym) would be changed to Value-Added Tax (VAT).	Currently, the name of the tax is 'Tax on the Transfers of Industrialized Goods and Services (ITBIS)'.
13	Digital services are added as taxable events for VAT.	There is no mention of digital services. The VAT Regulation maintains an interpretation of rental of intangibles that makes them not subject to VAT.
14	The VAT rate would be unified at 18% for all goods and services.	Certain goods enjoy a reduced VAT rate of 16%.
15	The list of VAT-exempt goods would be modified, leaving out of the exemption for items such as: water, meat (excl. chicken), fish, natural honey, tomatoes, potatoes, cabbage and lettuce, beans, fruits, oats, cereals and grains (excl. corn), sausages, cocoa, pasta notebooks and educational utensils, among others.	Currently, the list of VAT-exempt goods include: water, meat, fish, natural honey, tomatoes, potatoes, cabbage and lettuce, beans, fruits, oats, cereals and grains (excl. corn), sausages, cocoa, pasta notebooks and educational utensils, among others.
16	The VAT exemption for teaching services would be limited to services provided by institutions accredited by the Ministry of Education or the Ministry of Education, Science and Technology (MESCyT, for its Spanish acronym). Similarly, health services would be limited to those provided by institutions or professionals accredited by the Ministry of Public Health and Social Assistance (MISPAS, for its Spanish acronym).	<p>VAT exemptions cover the plurality of education, health and cultural services, without distinction of whether these are provided by accredited institutions or professionals.</p> <p>There is no exclusion for the exemption of housing at the level of the DTC, except for the provisions of the VAT Regulations that do exclude tourist apartments, farms, land, industries, ships, planes, villas, commercial premises, industrial</p>

	<p>In addition, the VAT exemption for cargo transport, cultural services, funeral services and beauty parlors would be eliminated. By extrapolation, it could be interpreted that gym, sports, arts, among others, would cease to be exempt.</p> <p>Finally, it is provided that the exemption for rental services of homes for family use would not apply when they have a commercial or tourist purpose, regardless of the use, whenever they are agreed through digital platforms; unless the residential use is proven by means of a rental contract according to the Civil Code, and it is signed, notarized and registered in the corresponding public registries.</p> <p>The rental of homes for family use, made by legal entities, would not exempt from VAT.</p> <p>The commissions charged by investment fund managers and brokerage firms would be being excluded from the VAT exemptions, regarding financial services.</p>	<p>warehouses, as well as other places where businesses operate.</p> <p>Financial services provided by investment fund managers and brokerage firms are not excluded.</p>
17	<p>Taxpayers that provide export services, and generate an VAT excess credit, would be able to request a credit or refund of such VAT credit in the same fiscal period in which the credit was generated.</p>	<p>Taxpayers that provide export services, and generate an VAT excess credit, are able to request a credit or refund of such VAT credit in the same fiscal period in which the credit was generated <u>and up to 6 months from that date.</u></p>
18	<p>The Administration would be empowered to create expedited mechanisms for partial or total reimbursement for exporters who generate balances in favor of VAT paid in domestic purchases. In the same way, the Administration may require real or personal guarantees, and require bonds to ensure tax compliance.</p>	<p>Through the DTC, the Administration is not legally authorized to create such reimbursement mechanisms or expedited accreditation with guarantees.</p>
19	<p>The importation of slot machines, parts, spare parts, accessory equipment and any other mechanical, electrical or electronic devices used in games of chance</p>	<p>The importation of slot machines, parts, spare parts, accessory equipment used in games of chance are exempt from all taxes, fees, contributions and</p>

	would be subject to all taxes, fees, contributions and duties determined by the competent laws and authorities.	duties determined by the competent laws and authorities.
20	The customs tariff for asphalt subheadings (2715.00) would be lowered to 0%.	The customs tariff establishes a 3% levy for asphalt subheadings (2715.00).
21	The VAT and Excise Tax (ISC) exemption for low-value goods (i.e., below USD 200.00) would be eliminated. The exemption from the tariff would be maintained.	Goods of low value (i.e., below USD 200.00.), are exempt from the payment of VAT, ISC and tariffs.
Excise Tax (ISC)		
22	An ISC of 75% would be established for different tobacco products and vaporizers for consumption. In the same way, a 20% tariff would be established for some of these products.	ISC does not contemplate these tobacco products and vaporizers for taxation.
23	The specific ISC for alcohols would be unified and set at DOP 840.00 per liter of absolute alcohol, in addition to an 11% ad-valorem on the retail price.	The specific ISC for alcohols is unified and set at DOP 742.12 per liter of absolute alcohol, in addition to a 10% ad-valorem on the retail price.
24	An ISC would be created for sugary drinks such as: carbonated, malt-based, tea or coffee-based, fruit-based, soft drinks, juices and nectars, energy drinks, sports drinks, flavored waters and powdered mixtures. Infant formulas, medicines that incorporate added sugars, whose purpose is nutritional therapy, or medical or therapeutic purposes and electrolyte solutions would not fall within the scope of this ISC. In addition, those that maintain an alcoholic strength by volume greater than 0.5% would be excepted. The specific ISC would range from DOP 0.00 to 1.00, depending on the added sugar content.	The DTC, or special laws, do not contemplate a tax of this nature.
25	Isolated and self-consumption energy systems would not have access to the ISC reimbursement on fuels.	Isolated energy systems are entitled to be reimbursed by the ISC established in Law No. 112-00 and Law No. 557-05, while self-consumption systems are entitled to be reimbursed by the ISC of Law No. 112-00.

26	An ad-valorem ISC rate of fuels for Avtur of 3.25% would be established. Likewise, the specific ISC of the Avtur would be of DOP 3.15 per gallon.	Avtur is taxed with an ad-valorem ISC of 6.5%. In addition, the specific ISC of the Avtur is of 5.81 DOP per gallon.
27	An ISC of 16% would be established on the sales or gross income of lottery and sports betting establishments.	Currently, the CTD does not include an ISC on the sales or gross income of lottery and sports betting establishments.
Special Tax Regimes		
28	<p><u>Simplified Taxation Regime:</u></p> <ul style="list-style-type: none"> - Taxpayers may request to be registered under this special tax regime or the Tax Administration may proceed ex-officio. - Individuals (Income): Individuals who generate up to DOP 5,000,000.00 per year would pay PIT based on the scale for individuals, assuming up to 40% of income as expenses. - Legal Entities (Income): Legal entities who generate up to DOP 11,126,189.96 per year would pay CIT and VAT at a rate of 7% on the declared income. - Individuals and Legal Entities (Purchases): Individuals and legal entities with purchases up to DOP 51,154,896.37 per year would pay IT and VAT at the IT scale for individuals and legal entities at 27% over the gross operating margin determined by the Tax Administration. 	<p><u>Simplified Taxation Regime:</u></p> <ul style="list-style-type: none"> - In order for taxpayers to be registered under this regime, a request must be filed to the Tax Administration. - Individuals (Income): Individuals who generate up to DOP 11,126,189.96 per year pay PIT based on the scale for individuals, assuming 40% of income as expenses. - Legal Entities (Income): Legal entities who generate income up to DOP 11,126,189.96 per year pay CIT and VAT at a rate of 7% on the declared income. - Individuals and Legal Entities (Purchases): Individuals and legal entities with purchases up to DOP 51,154,896.37 per year pay IT at the IT scale for individuals and legal entities at 27% over the gross operating margin determined by the Tax Administration. Similarly, an 18% VAT is applied to the gross operating margin determined by the Tax Administration.
29	<p>Non-Profit Associations (NPAs) regulated by Law No. 122-05 would be exempt from income tax and any tax levied on donations and legacies made to them.</p> <p>In the case of NPAs engaged in private activities related to education, they would maintain the exemption from IT, provided that the profits, in whole or in part, are not distributed to individuals or to legal entities.</p>	NPAs enjoy broad tax exemptions, including IT, VAT, ISC, as well as taxes related to imports, excise duties, among others.

30	<p>The income tax applied to sales to the local market made by Free Trade Zones ("FTZ") would be of 5% on the gross income of its operations, or 27% in case the FTZ decides to pay tax on the profit obtained, from such sales.</p>	<p>The income tax applied to sales to the local market made FTZ is of 3.5% on the gross income from such sales.</p>
31	<p>Trusts would be exempt from the payment of fees for the registration of contracts, except for civil registry fees.</p> <p>In the same way, trusts would be subject to transfer or registration taxes for the initial contribution of assets, as well as IT and Capital Gains Tax (CGT) by the settlor.</p> <p>Once the trust has been formed and the assets and rights contributed, the subsequent transfer of these as a result of the restitution of assets to the settlors or beneficiaries would be exempt from all types of taxes, especially transfer taxes, IT and CGT, <u>only when it is made at the same book value that was registered at the time of initial transfer.</u></p> <p>Trusts are subject to and not exempt from IT, and other direct taxes. Likewise, the distributions of profits made by the trusts would be subject to the 10% withholding established in article 308 of the DTC.</p> <p>Most tax distinctions would be eliminated for publicly offered trusts vs. ordinary trusts. However, certain exemptions would remain in place for low-cost housing trusts.</p>	<p>Trusts are exempt from the payment of fees for the registration of contracts, except for civil registry fees.</p> <p>In the same way, trusts are subject to transfer or registration taxes for the initial contribution of assets, but the settlor is exempt from IT and CGT for such contributions. However, public offering trusts do not fall within the scope of the aforementioned transfer taxes.</p> <p>Once the trust has been formed and the assets and rights contributed, the subsequent transfer of these as a result of the restitution of assets to the settlors or beneficiaries are exempt from all types of taxes, especially transfer taxes, IT and CGT.</p> <p>Trusts are exempt from IT. However, they have the obligation to distribute all their accumulated profits at the end of each fiscal year, withholding the 10% established in Article 308 of the DTC.</p>
32	<p>A gradual dismantling of the 50% exemptions of Law No. 103-13, on non-conventional energy vehicles, would be established. From the fifth year after the enactment of the tax reform, these incentives would be reduced by 10% per year until the applicable 100% of all taxes are reached. In addition, the 50% VAT exemption would be applicable only to the first transfer from the</p>	<p>Law No. 103-13 establishes a 50% exemption on VAT, first plate, tariff and CO² emissions.</p>

	importer or vehicle concessionaire to the final consumer.	
33	<p>Except for transfer taxes at the time of constitution of an autonomous patrimony, these would be subject to the ordinary regime, including IT.</p> <p>When the autonomous patrimony is dedicated to the administration of real estate and distributes 90% of its taxable income to investors, it would not be subject to IT.</p>	<p>Autonomous patrimonies are exempt from VAT and real estate transfer (3%) at the time of their formation, as well as at the time of their dissolution.</p> <p>Similarly, they are exempt from IT, and from the CGT at the time of their dissolution. Additionally, they are exempt from ISC on checks and bank transfers (0.15%).</p>
34	<p>Investors of autonomous patrimonies would be subject to IT, CGT, as well as any other direct tax.</p> <p>The withholdings made by the autonomous patrimonies, through their administrators, fiduciaries and securitizers, for income paid or credited to investors would constitute a payment on account to the income tax of the latter.</p>	<p>The withholding of 10% of the distribution of profits defined in Art. 308 of the DTC and applicable to autonomous patrimonies is one-time and definitive, that is, it is not subject to other direct taxes in the Dominican Republic.</p>
35	<p>For the Special Tax Regime for Border Development, companies in the electricity sector, mining companies and companies under any other incentive regime, would not be eligible for the tax incentives.</p> <p>In addition, a minimum investment of depreciable fixed assets of USD 5,000,000.00 and a minimum payroll of 50 employees would be established throughout the company's operation. It should be noted that this regime would be valid for 30 years from its enactment (2021) and reviewed for compliance every 10 years.</p>	<p>There is no express exclusion of types of companies, nor a minimum, by provision of law, of investment or employment.</p>
36	<p>The services provided by logistics centers operators, as well as the entry of goods under the ordinary regime on behalf of a non-resident consignee, would be subject to a sales tax to the local market of 5% on the gross value of the merchandise or service.</p>	<p>The local market tax applicable to logistics centers operators, as well as the entry into the local market of merchandise by a non-resident consignee is subject to a 3.5% tax on the gross value of the merchandise or service.</p>

37	Exemptions for mining concessionaires would be eliminated.	An exemption is established, to be determined by concession of the Executive Power, on the importation of mining and metallurgical machinery and equipment, vehicles, chemical reagents, laboratory effects, explosives, fuels (except gasoline), lubricants, substances and products, at the discretion of the Executive Branch.
38	The tax incentives of Law No. 158-01, on the Promotion of Tourism Development ("CONFOTUR") would be eliminated.	<p>Law No. 158-01 provides for the following incentives:</p> <ul style="list-style-type: none"> - Exemption from income tax for 15 years. - Exemption from national and municipal taxes for the incorporation of companies, capital increases, transfer of real estate (3%), Real Estate Property Tax ("IPI"), payments abroad of interest on financing, among others. - Real estate transfer tax (3%) and IPI for the first purchaser.
39	Exemptions would be eliminated for textile companies.	Textile companies are exempt from the VAT on the import or purchase in the local market of inputs, raw materials, machinery, equipment and services determined by Law No. 56-07. In the same way, these textile companies are exempt from IT.
40	The incentives to the film industry provided by Law No. 108-10, for the Promotion of Cinematographic Activity in the Dominican Republic, would be repealed.	<p>Law No. 108-10 provides for certain incentives, including the following:</p> <ul style="list-style-type: none"> - Legal entities are allowed up to a 100% deduction on investments in feature films. - 50% exemption for companies that invest capital in the construction of movie theaters in the National District and Santiago, until 2025. For the other provinces, the exemption is 100%. - Transferable tax credit of 25% on investments in cinematographic works, to offset IT.

		<p>- Exemption from VAT applicable to the acquisition of goods and the provision of services that are directly related to the pre-production, production and post-production of cinematographic works.</p> <p>- 100% exemption for those who establish filming or recording studios until 2025.</p>
41	Incentives applicable to the autonomous patrimonies created in the process of securitization would be eliminated.	<p>Transfers of loans and mortgage guarantees that make up credit portfolios subject to securitization are exempt from all taxes, fees, duties, ISC and contributions.</p> <p>Autonomous patrimonies created in a securitization process are exempt from all taxes, fees, duties, excise duties and contributions.</p>
42	Certain incentives for competitiveness and industrial innovation (PROINDUSTRIA) would be repealed.	<p>Law No. 242-20 renews and modifies incentives for competitiveness and industry. Among these incentives are:</p> <p>- 50% exemption from VAT for certain machinery, equipment and parts classified under the law.</p> <p>- For the aforementioned list of machinery, equipment and parts, an accelerated depreciation (2x) or a CIT deduction within the same period is provided. Furthermore, the abovesaid Law also provides an exclusion of eligible assets from the Asset Tax (ISA) basis for the period of duration of the law (i.e., 2035).</p>
Other taxes		
43	<p>The exemption from the IPI would stand at DOP 5,025,380.75 for the set of properties of an individual.</p> <p>Above this value, individuals would pay 1% per year, based on the cadastral value determined by the General Agency for Land Registry (<i>"Dirección General de Catastro Nacional"</i>).</p>	<p>The exemption from the IPI is DOP 9,860,649.00 for the set of properties of an individual.</p> <p>Above this value, individuals pay 1% per year, based on the value registered with General Agency for Internal Taxes (DGII).</p>
44	A contribution of USD 174.50 per metric ton of Liquefied Petroleum Gas (LPG) or its components	The DTC does not include a contribution of this type, per metric ton of Liquefied Petroleum

	(Propane and Butane) would be established.	Gas (LPG) or its components (Propane and Butane) would be established.
45	<p>The vehicle circulation tax would be established as follows:</p> <ul style="list-style-type: none"> - Up to 5 years from the year of manufacture: DOP 6,000.00. - With more than 5 years from the year of manufacture: DOP 3,000.00. - For motorcycles: DOP 1,200.00 	<p>The vehicle circulation tax is established as follows:</p> <ul style="list-style-type: none"> - Up to 5 years from the year of manufacture: DOP 3,000.00. - With more than 5 years from the year of manufacture: DOP 1,500.00.

KPMG confirms its interest in providing tax and legal advisory services in order to assist you in facilitating the process of adaptation and necessary provisions to the provisions of the aforementioned preliminary draft.

Kind regards

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