Ecuador

Juan Carlos Campuzano S*.
UN-CIAT Course on Transfer Pricing

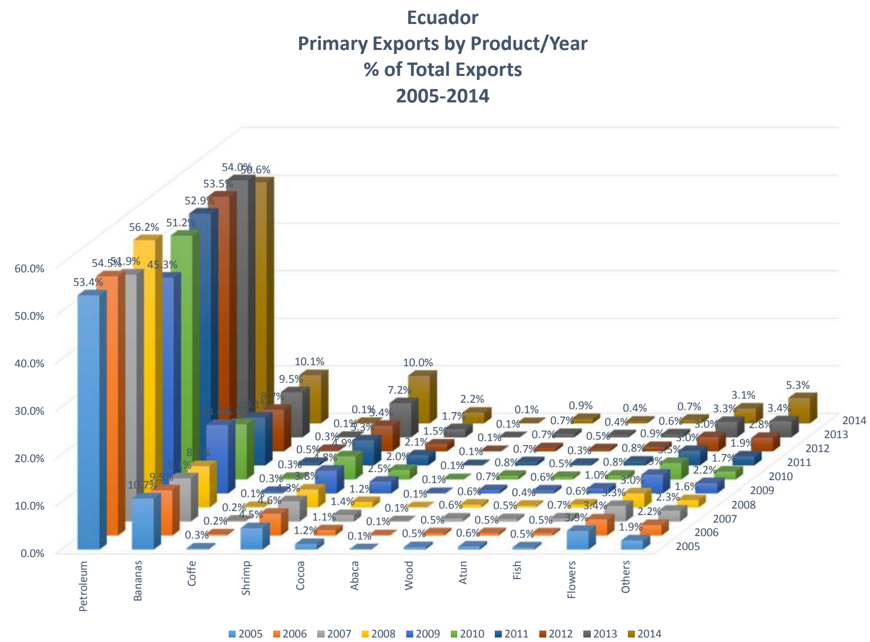
Panama, August 2015

* Servicio de Rentas Internas del Ecuador

Ecuador Country Profile

Indicator	
Population	15,737,878
GNI per capita	USD$ 5,510
GDP Growth Rate	1.9 (Prev)
Unemployment rate	4,47%
Inflation rate (Annual July 2015)	4,36%
Doing Business Ranking 2015	115
Paying Taxes Ranking 2015	138

Sources: World Bank, Banco Central del Ecuador, Ecuador en Cifras



Main Sectors Under Transfer Pricing Analysis

Agricultural
- Bananas
- Wheat
- Flowers
- Wood

Fishing
- Fish
- Shrimp

Minning
- Petroleum
- Minerals

Pharmaceutical
- Distribution
- Manufacturing

Tourism and Transportation
- Tourism services
- Air Transportation
- Car dealers

Transfer Pricing Legislation Timeline

1. 1999. "*Ley de Reforma de las Finanzas Publicas*". (Art.91 Tax Code) The Tax Administration may establish rules to regulate transfer pricing of goods and/or services.
2. 2004. "*Act No.2430*" Regulates the transfer pricing mechanism since 2005. Adopt 1995 OECD Transfer Pricing Guidelines.
3. 2005. "Internal Resolutions No. 640 and 641"
4. Before 2006. Only research and few analysis on T.P
5. 2007 - 2008. "*Ley de Equidad Tributaria*". Creation of International Tax Unit
6. 2008 and before. Exhaustive Controls on Transfer Pricing
7. 2013. "*Reforma a la Ley de Minería*".
8. 2014. "*Código Orgánico Monetario y Financiero"*
9. 2015. "*Ley de Incentivos al Sector Productivo y Prevención del Fraude Fiscal*"

Main Issues dealing with transfer pricing

Related Companies

Comparability Analysis

Method Selection and Capital Adjustment

Court/Tribunals Decisions

Changes in Taxpayers behaviour

Main Issues Dealing With Transfer Pricing

Related Companies

	2008-2009	2010-2012	2013-2015
Local Companies	*"We do not have related parties"*	*"Ok. We have but only for economic porpuoses"* *"The foreign Company forced us to do this"*	*"Ok. Not only for economic porpouses, also by control and administration but there are few transactions with them"*

Foreign Companies → *"We have but only for economic or strategic porpuoses"*

2008-2015

Main Issues Dealing With Transfer Pricing

Comparability Analysis

2008 - 2013

- Main functions were not according with firm/sector reality
- Companies *"did not had contracts"*
- Different market segments in relation with their comparables

2014 - 2015

- Companies *have contracts* or at least they recognize they have had in the past
- Almost same market segments in relation with their comparables
- Main functions are more accurate with reality

Main Issues Dealing With Transfer Pricing

Method Selection and Capital Adjustment

CUP

CUP

Transactional Net Margin Method

2008 - 2013

2014 - 2015

Main Issues Dealing With Transfer Pricing

Court/Tribunals Decisions

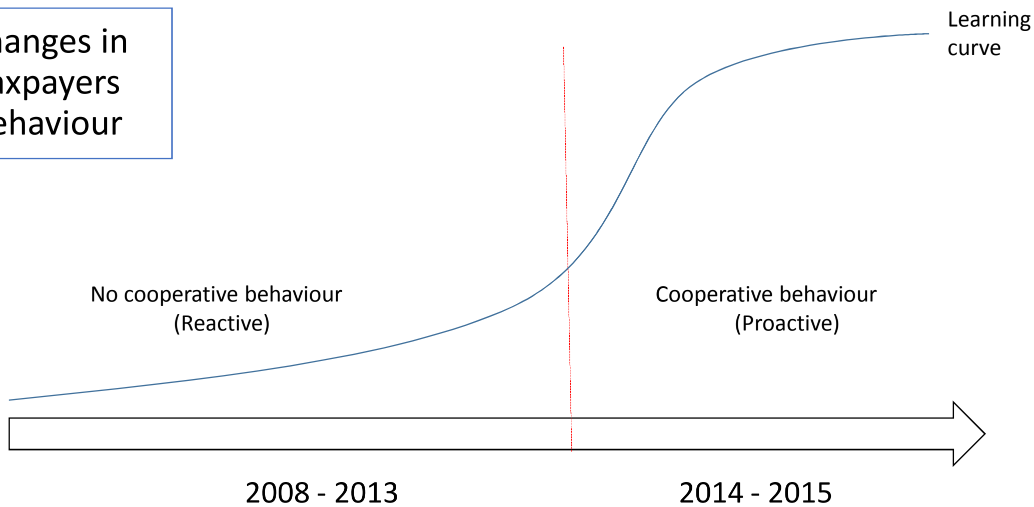
Most of the Tribunals decisions are in favour of Tax Administration

2008 - 2013

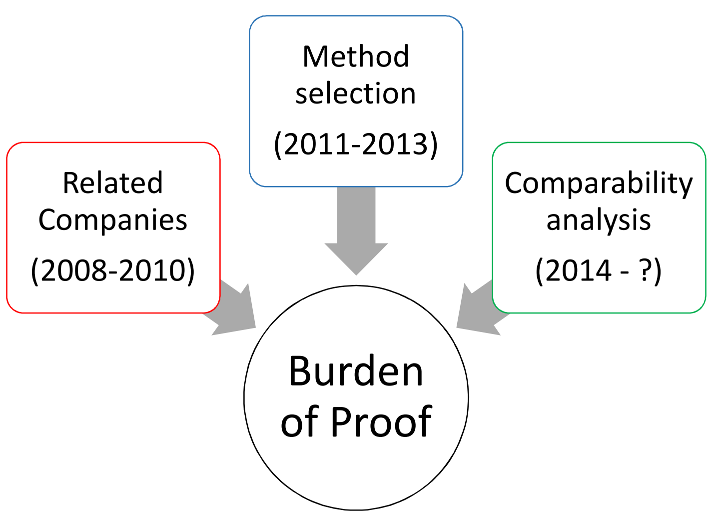
2014 - 2015

Main Issues Dealing With Transfer Pricing

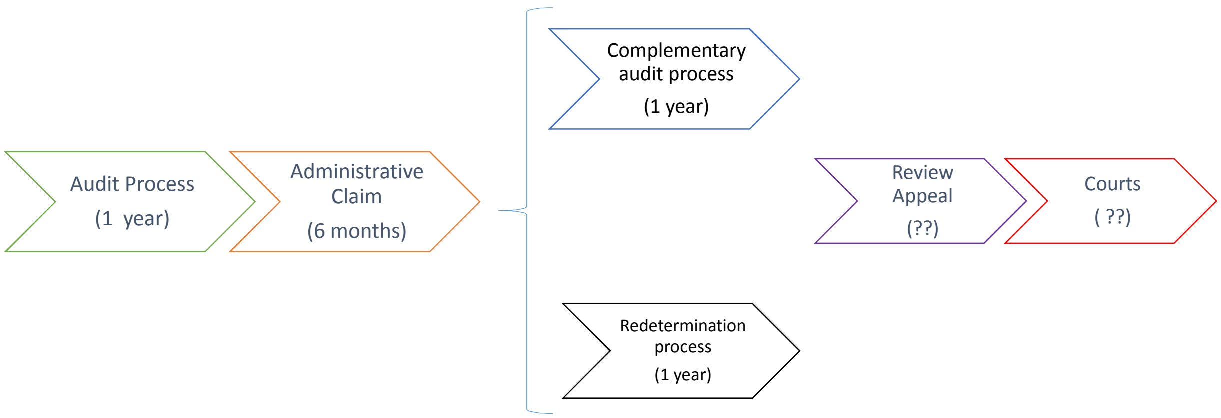
Changes in Taxpayers behaviour



Main Issues Dealing With Transfer Pricing



Main Issues Dealing With Transfer Pricing



Main Conclusions

- At the very beginning there is a lot of resistance from taxpayers, mainly due uncertainty.
- Is not an easy process. Takes time and economic resources for both: tax administration and taxpayers.
- Datailed analysis of the information and supporting evidence are the core of the success.
- Persistency is necessary
- Unconditional support of authorities is strongly necessary for the succes of the audit process
- Approach with taxpayers is also essential
- It is necessary to involve judges

Thanks!

@jcampuza