



## Dominican Republic

### Introduction

An expatriate's liability for Dominican Republican tax is generally determined by the territoriality principle during the first three years of residency. Income tax is levied at progressive rates on an individual's taxable income for the year, which is calculated by subtracting allowable deductions from the total assessable income.

### Contact

**José N. Cardona**

**KPMG in the Dominican Republic**

Tax Partner

**T:** +80 95 66 9161

**E:** [jcardona@kpmg.com](mailto:jcardona@kpmg.com)

### Key messages

Extended business travelers are presumed to have established a permanent establishment or domicile in the Dominican Republic if they spend the equivalent of 6 or more months within a 12-month period working in the country. If a permanent establishment or domicile is established, income earned is presumed to be from a Dominican source and should be declared and taxed in the Dominican Republic.

## Income tax

### Liability for income tax

The Dominican Republic tax system is based on the territoriality principle, whereby all income derived within Dominican sources is subject to income tax. Certain exceptions apply.

A resident of the Dominican Republic generally refers to an individual who remains in the country for more than 182 days in a fiscal year (continuously or not). Foreigners become subject to taxation in the Dominican Republic on financial and investment income from sources outside the Dominican Republic after the third taxable year in which they are deemed to be a resident.

### Definition of source

Employment income is generally treated as Dominican Republic-sourced compensation without considering where the individual performs the work. The same applies to the rendering of services to Dominican enterprises and individuals.

### Types of taxable income

For extended business travelers, the types of income that are generally taxed are employment income and Dominican Republic-sourced income that arises from capital, goods, or rights located, placed, or economically used in the Dominican Republic, as established in the Dominican Tax Code (DTC) article 272 literal (a).

### Tax rates

For 2010, net taxable income is taxed at graduated rates ranging from 0 to 25 percent. The maximum tax rate is currently 25 percent on income earned over 773,173 Dominican pesos (DOP) (USD20,620) in the case of both residents and nonresidents.

## Social security

### Liability for social security

The Dominican Republic has a comprehensive social security scheme to which both individuals and employers contribute. Employee and employer contribution rates depend upon the benefit covered and are often capped at a maximum rate of 20 times the minimum wage.

## Compliance obligations

### Employee compliance obligations

Individuals are taxed on a calendar year basis. Tax returns are due by March 31 following the tax year-end, which is December 31.

### Employer reporting and withholding requirements

The Dominican social security system provides, as an obligation to employers, the contribution of 70 percent of the cost of the contributive plan to fund old age, disability, and survival insurance and the family health insurance, while employees shall contribute the remaining 30 percent.

The cost of the labor risks insurance (workers' compensation) shall be covered 100 percent by employers. The contributive plan contains the following:

### a) Old age, disability, and survival insurance

Contributions are based on 9.97 percent of the taxable salary as follows:

Distribution	
Employee	2.87 percent
Employer	7.10 percent

### b) Family health insurance

The family health insurance portion of the contributive plan is based on a simple distribution financial scheme based on a total contribution equal to 10.13 percent of taxable salary as follows:

Distribution	
Employee	3.04 percent
Employer	7.09 percent

Source: KPMG in the Dominican Republic, June 2010

### c) Labor risks insurance

The contributions to the labor risks insurance will vary depending upon the category of the risk. The categories are:

Category	Percentage of the contributable salary
I	1.10 percent
II	1.15 percent
III	1.20 percent
IV	1.30 percent

Source: KPMG in the Dominican Republic, June 2010

It is important to note that, according to article 307, those employees who have a sole source of income derived from employment are not required to complete an income tax return. However, if an income tax form is filed for the first time in a given year, then the taxpayer is required to file a tax form every year.

## Other

### Work permit/visa requirements

A visa must be applied for before the individual enters the Dominican Republic. The type of visa required will depend on the purpose of the individual's entry into the Dominican Republic. United States citizens need a valid passport and a tourist card (valid for a maximum of 60 days) to enter Dominican Republic territory, and in this case, no visa is required.

### **Double taxation treaties**

In addition to the Dominican Republic's domestic arrangements that provide relief from international double taxation, the Dominican Republic has entered into a double taxation treaty with Canada to prevent double taxation and allow cooperation between the two countries.

### **Permanent establishment implications**

There is the potential that a permanent establishment could be created as a result of extended business travel, but this would depend on the type of services performed and the level of authority the employee has.

### **Indirect taxes**

The standard value-added tax (VAT) rate is 16 percent, which is applied to the supply of goods and services within the Dominican Republic and upon the import of goods. Monthly filings are required. Registration is required and is performed simultaneously with the registration of the applicable taxpayer. A selective consumption tax (based on value) is applicable to alcoholic beverages, beer, and tobacco products. Percentages may vary. In addition, custom duties apply to certain imported goods and luxury items not covered by DR-CAFTA (Dominican Republic – Central America Free Trade Agreement with the United States).

### **Transfer pricing**

The Dominican Republic has a transfer pricing regime that was implemented in 2007 based upon arm's-length principles. A transfer pricing implication could arise to the extent that the employee is being paid by an entity in one jurisdiction but performing services for the benefit of the entity in another jurisdiction, in other words, a cross-border benefit is being provided. This would also be dependent on the nature and complexity of the services performed.

### **Local data privacy requirements**

The Dominican Republic does not have comprehensive data privacy laws. Various protections, however, are afforded the individual pursuant to the 2009 constitution and various other laws, decrees, and resolutions.

### **Exchange control**

The Dominican Republic does not restrict the flow of Dominican Republic or foreign currency into or out of the country.

### **Nondeductible costs for assignees**

Nondeductible costs for assignees include contributions by an employer to non-Dominican Republic pension funds.

---

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The material contained within draws on the experience of KPMG tax personnel and their knowledge of local tax law in each of the countries covered. While every effort has been made to provide information current at the date of publication, tax laws around the world change constantly. Accordingly, the material should be viewed only as a general guide and not be relied on without consulting your local KPMG tax adviser for the specific application of a country's tax rules to your own situation.

© 2011 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved. 23943NNS