

EXECUTIVE SUMMARY

Tax Reform Proposal Brief

We present a summary of the proposed changes in the draft Tax Modernization Law presented by the Executive Branch for discussion and approval. We highlight the modifications in taxes, elimination of tax incentives, new taxes and additional obligations for taxpayers. It includes specific details on how sectors such as tourism, free zones, cinema, textiles and trusts will lose certain tax benefits, and summarizes the new rates applicable to different products and services. In addition, the new compliance and declaration obligations that fall on taxpayers are explained, such as the mandatory annual declaration for employees and the registration of final beneficiaries.

The bill justifies these reforms as necessary to improve the efficiency, equity, and transparency of the country's tax structure, raising the tax burden to meet the sustainable development goals of the 2030 National Development Strategy. The reform seeks to reduce fiscal spending, strengthen economic stability, and reduce the budget deficit, responding to the need for fiscal sustainability and investment in critical areas such as health, security, and infrastructure development.

Summary of Proposed Changes to the Tax Modernization Act

Aspect	Current Scenario	Proposed Admendment	Affected Law
Tax on the Transfer of Industrialized Goods and Services (ITBIS)	ITBIS is the tax applied to transfers and services in the domestic market.	Convert ITBIS to VAT with a simpler structure.	Law 11-92 (Tax Code)
Dividends Abroad	Subject to taxes withholding the established rate.	Exemption of dividends if withholding was equal to or greater than the local rate.	Law 11-92 (Tax Code)
Overseas Interests	Withholding and application of interest tax.	Credit to the ISR up to the cap of the local rate.	Law 11-92 (Tax Code)
Transport Company Rentals	Fixed income is presumed on international operations.	Fixed income of 15% for transport companies.	Law 11-92 (Tax Code)
Income from Foreign Insurance Companies	Fixed income of 15% on insurance premiums collected.	Income of 15% applies for insurance companies domiciled or not.	Law 11-92 (Tax Code)

Aspect	Present Situation	Proposed Revision	Implicated Legislation
Simplified Tax Regimes (RST)	Multiple regimes applicable without unification.	Establish a unified RST with specific income limits and rates.	Law 11-92 (Tax Code)
Income Tax Advances (ISR)	They pay advances based on gross income.	Advances based on revenue quotas adjusted by company size.	Law 11-92 (Tax Code)
Exemptions from Value Added Tax (VAT)	Specific exemption of goods and services according to Article 343 of the Tax Code.	Extension and modification of goods exempt in Article 343.	Law 11-92 (Tax Code)
Fuel and Energy Taxes	Variation of taxes according to type of fuel.	General rate of 18% for all fuels.	Law 11-92 (Tax Code)
Personal Income Tax Scales	Exemption scale and progressive taxation up to 25%.	Adjustment of ISR scales up to a maximum of 27% for higher incomes.	Law 11-92 (Tax Code)
Income Tax (ISR) - Individuals	Progressive scale up to 25%, with a deduction for educational expenses.	Add a 27% bracket for income greater than RD\$2.4 million, elimination of the deduction for educational expenses.	Law 11-92 (Tax Code)
Income Tax (ISR) - Legal Entities	Presumption of 10% earnings for foreign transportation and insurance.	Increase of presumption to 15%, increase of withholding to 15% in commissions.	Law 11-92 (Tax Code)
Selective Consumption Tax - Sugary Beverages	There is no specific tax for sugary drinks.	Specific tax of RD\$0.6 or RD\$1.0 per 100ml depending on the sugar content.	New regulation under Selective Consumption Tax
Selective Consumption Tax - Alcoholic Beverages	Existing specific and ad valorem tax.	Increase in the specific tax to RD\$840/liter, and ad valorem to 11%.	New regulation under Selective Consumption Tax
Real Estate Property Tax (IPI)	Exempt amount of RD\$10 million.	Reduction of exemption to RD\$5,025,380.75; 1% of the excess.	Law 18-88 (Tax on Sumptuary Homes and Plots)
Vehicle Circulation Tax	RD\$1,500 for vehicles over 5 years old; RD\$3,000 for newer ones.	Increase to RD\$3,000 and RD\$6,000 respectively according to seniority.	Law 63-17 (Mobility, Land Transport)
Tariff on Electronic Cigarettes	There is no specific tariff for electronic cigarettes.	20% tariff on imports of electronic cigarettes and inputs.	New regulation under Customs Tariff
Tax Incentives for Traditional Sectors	Current tax incentives in tourism, cinema, and other sectors.	Elimination of old incentives, with exceptions in housing	Sector-Specific Incentive Laws

Summary of Eliminated or Reduced Tax Incentives

Industry	Current Incentive	Affected Law	Elimination/Reduction Application
Tourism	Tax exemptions under the Law for the Promotion of Tourism Development.	Law 158-01 (Promotion of Tourism Development)	Gradual reduction of exemptions for new tourism projects.
Free Trade Zones	Benefits of tax exemptions according to the Free Trade Zone Law.	Law 8-90 (Free Trade Zones)	Limiting exemptions to only new free zones in specific regions.
Cinema	Tax incentives for film production and distribution.	Law 108-10 (Cinematographic Activity)	Elimination of tax exemptions for film productions of certain genres.
Textile	Exemptions and benefits for the textile manufacturing sector.	Law 56-07 (Textile and Footwear Sector)	Reduction of exemptions on imports of raw materials and equipment.
Trusts	Tax incentives for trusts, mainly in real estate projects.	Law 189-11 (Mortgage Market and Trusts)	Limitation of tax benefits only to low-cost housing projects.

Summary of Proposed New Taxes


New Tax	Description	Affected Law
Tax on Sugary drinks	Specific tax based on sugar content, from RD\$0.6 to RD\$1.0 per 100ml.	New regulation under the Selective Consumption Tax
Luxury Vehicle Tax	Tax increase for vehicles with values greater than RD\$5 million.	Modification in Law 63-17 (Mobility and Transport)
Digital Services Tax	Application of VAT to digital services and online purchases.	Inclusion in the Tax Code under Law 11-92
Alcoholic Beverage Tax	Increase in the specific tax for alcohol content and increase in the ad valorem.	Review of the Selective Consumption Tax
E-Cigarettes Tax	20% tariff on imports of electronic cigarettes and inputs.	Inclusion in the Customs Tariff

Detailed Summary of Tax Exemption Changes by Industry

Industry	Current Incentive	Proposed Changes	Affected Law
Tourism	Tax exemptions under Law 158-01 to promote the development of infrastructure and tourism projects in underdeveloped areas.	Gradual elimination of exemptions for new projects, limiting the validity and extension of benefits depending on the area of development.	Law 158-01 (Promotion of Tourism Development)
Free Trade Zones	Full tax exemptions from customs, ITBIS and income taxes under Law 8-90 for companies in free zones.	Restriction of exemptions to new free zones exclusively in border areas or priority development. Exemptions from ITBIS and rent will be limited in duration and amount.	Law 8-90 (Free Trade Zones)
Cinema	Deductions and exemptions for film productions under Law 108-10, including imports and payments to foreigners.	Exclusion of specific types from incentives, and limitation of exemptions in the contracting of services and in production expenditure.	Law 108-10 (Cinematographic Activity)
Textile	Tax exemptions on tariffs and other taxes for the textile and footwear sector, under Law 56-07.	Reduction of tax exemptions on imports of raw materials and machinery. Application of reduced fees in lieu of full exemption.	Law 56-07 (Textile and Footwear Sector)
Trusts	Tax benefits in Law 189-11 for trusts for real estate and infrastructure projects.	Limiting tax benefits only to low-cost housing projects, eliminating exemptions for other real estate trusts.	Law 189-11 (Mortgage Market and Trusts)

Summary of New Tax Obligations for Taxpayers

Tax Obligation	Description	Affected Law
Annual Affidavit for Salaried Employees	Obligation to file an annual affidavit for salaried employees with incomes greater than RD\$624,329.	Law 11-92 (Tax Code)
Company Registration for Tax Compliance	Mandatory registration for all companies in the DGII, for monitoring and compliance with tax obligations.	Law 11-92 (Tax Code)
Payments for Digital Services Report	Quarterly report on payments made for digital services to non-resident entities, with applicable withholding.	Law 11-92 (Tax Code)
Declaration of Beneficial Owners	Mandatory annual declaration of the final beneficiaries of legal entities.	Law 11-92 (Tax Code)
Withholding Tax on Financial Services	1% withholding tax for financial institutions that offer services to non-resident individuals or legal entities.	Law 11-92 (Tax Code)



If the fiscal reform is approved in its current form, approximately 22 laws will be affected with specific modifications. These laws include the Tax Code (Law 11-92) and other important legislation that regulates sectors such as tourism, free zones, the film industry, the textile sector, trusts, and property tax, among others. The reform introduces significant changes both in tax rates and in the elimination and reduction of exemptions, impacting a variety of existing legal provisions.

This brief contains preliminary information based on the tax reform proposal presented, which is not yet final. Now it is up to its review and discussion in the legislative chambers. Therefore, the information presented is not final and is subject to change depending on the final version of the law that is approved and promulgated.

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