Taxation of international executives: Dominican Republic

February 2024

Contents

KPMG

01

Overview and Introduction

1 Overview and Introduction

An expatriate's liability for purposes of the Dominican Republic income tax is generally determined by the territoriality principle. Income tax is levied at progressive rates on an individual's taxable income for the year. In accordance with the provisions of Section 268 of the Dominican Tax Code ("DTC"), the base for the Individual Income Tax ("IIT") is calculated considering all income generated by an individual, whether through the provision of independent services, as employees, or by commercializing a good (e.g., rental income).

An individual will be considered resident, for tax purposes, in the Dominican Republic, after staying in Dominican territory for a period exceeding one hundred eighty-two (182) days, consecutive or not, during a fiscal year; at which point, he/she will be treated the same as a Dominican national, for tax purposes. Foreigners who become residents in the Dominican Republic are subject to the payment of the same taxes as individual who are resident in the country (e.g., personal income tax, social security contributions and fringe benefits tax).

02
Income tax

2 Income Tax

2.1 Liability for income tax

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

An individual shall be considered a resident, for fiscal purposes, of the Dominican Republic, after remaining in the Dominican territory for a period exceeding one hundred eighty-two (182) days, consecutive or not, during a fiscal year; from which, the individual will be treated equally as a Dominican national, for tax purposes. Foreigners who become residents of the Dominican Republic are subject to paying the same taxes as individuals residing in the country (i.e., IIT, contributions to Social Security and fringe benefits tax).

Definition of Source

Employment income is generally treated as Dominican Republic–sourced compensation without considering the origin of the source funding a wage. The same applies to the rendering of services to Dominican companies and individuals.

Types of taxable income

For extended business travelers, the type of income 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 provided by Article 272 of the Dominican Tax Code (DTC). Individuals residing in the country, generating taxable income through the provision of independent services, or as employees, are required to pay taxes on their income from Dominican sources, and from sources outside the Dominican Republic, coming from investments or financial gains.

Filing and payment of IIT for individuals must be made no later than the thirty-first (31) day of March of each year, through the IIT Return (hereinafter, “IR-1 Form”). It should be noted that individuals generating income solely through payroll, due to their work in a dependency relationship, should not submit IR-1 Form. The employer must deduct and pay every month the applicable withholding, according to the scale described in the following section, and enter it at the DGII, together with any applicable IRC, through the IR-17 Form.

Tax rates

For 2023, the net taxable income is taxed at progressive rates ranging from 0% to 25%. The maximum tax rate is currently 25% on income earned over USD 15,213 for both, residents and nonresidents. The IIT rate is calculated progressively, according to a scale adjusted annually by the DGII. For the year 2023, the rates applicable to IIT are as follows:

Income ranging from USD 0 to USD 7,300: Exempt
Income ranging from USD 7,301 to USD 10,953: 15%
Income ranging from USD 10,954 to USD 15,212: 20%
Income upwards to USD 15,213: 25%

03

Special considerations for short term assignments

3 Special considerations for short-term assignments

For the purposes of this publication, a short-term assignment is defined as an assignment that lasts for less than 1 year.

3.1 Residency rules

Are there special residency considerations for short-term assignments?

Since the Dominican tax system is based on the territoriality principle, an individual whose income derives from Dominican source shall be considered subject to IIT, based on that income, regardless of whether the individual is considered a resident or non-resident.

3.2 Payroll considerations

Are there special payroll considerations for short-term assignments?

In the event that short-term assignees are enrolled in a local payroll, they would be subject to IIT on their Dominican-sourced income, as their employer would apply monthly withholdings.

3.3 Taxable income

What income will be taxed during short-term assignments?

As previously mentioned, income generated by short-term assignees, in connection with their work carried out in the Dominican Republic, would be deemed Dominican-sourced and subject to IIT.

3.4 Additional considerations

Are there any additional considerations that should be considered before initiating a short- term assignment in Dominican Republic?

Prior to arrival, any foreign citizen wishing to work in the Dominican Republic must be in possession of a Dominican visa. The type of visa required will depend on the purpose of the individual's stay in the Dominican Republic.

Please note that United States citizens need a valid passport and a tourist card (valid for a maximum stay of 30 days) in order to enter to the Dominican Republic territory, and in this case, no visa would be required.

04

Other taxes and levies

4 Other taxes and levies

4.1 Social security tax

The Dominican Republic has a comprehensive social security scheme to which both, individuals and employers shall 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.

The aforementioned contributions are calculated on the basis of each employee's salary.

4.2 Profit sharing

Employees as a group are entitled to a share equal to 10% of the pre-tax profits, if any, of the employer. Assuming a sufficiently high profit, the amount each employee receives depends on his seniority. Those who have been employed for less than 3 years get 45 days of ordinary wages; those who have been employed for more than 3 years get 60 days of ordinary wages. These amounts are payable the following year, after the employer has filed his income tax return and as referred, are considered ordinary income for tax purposes. Workers in the Free Zones are not entitled to a share in profits.

4.3 Taxation on Fringe Benefits

Fringe benefits are defined by tax law as any sort of in-kind benefits which may be granted to an employee by his employer (i.e. usage of a company vehicle, housing, annual paid vacations, sibling scholarships, stocks or any other sort or benefits received by the employee) in exchange for its labor, whether or not included on his employment contract. If any employer pays cash to a third party with the purpose of the latter providing a benefit to the employee, the benefit resulting from such action is deemed also a fringe benefit. Tax law provides a rate on fringe benefits of 28% and shall be paid on a monthly basis.

4.4 Sales/VAT tax

The standard value-added tax (VAT) rate is 18%, such 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 for all other taxes.
An excise 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).

05
Immigration

5 Immigration

Following is an overview of the concept of Vietnam’s immigration system for skilled labor.

5.1 International Business Travel/Short-Term Assignments

Business visas are issued for business trips, professional or commercial purposes. The multiple business visa (NM, for its Spanish acronym) allows assignees to enter the Dominican Republic multiple times during the course of one (1) year, for a maximum period of two (2) months.

5.2 Long-Term Assignments

In this scenario, assignees would have to procure a work visa (NM1, for its Spanish acronym), which is issued for a period of one (1) year, for business travelers and for potential residents of the country. This visa allows assignees to enter the Dominican Republic multiple times during the course of one (1) year.

Moreover, that Dominican Immigration Laws do not set forth visa renewals or extensions. Therefore, once this NM1 has expired, a new visa procurement application shall be filed before the Dominican consulate located in the assignee's home country.

5.3 General Immigration Related Questions

To work legally in the Dominican Republic, the law requires that the expatriate obtain a residence permit (RT-3), before the Dominican Migration Authority (DGM, for its Spanish acronym).

The residence permit allows the expatriate to obtain a Dominican driver's license, as well as automobile insurance. It also allows the expatriate to drive with the license of his country of origin, as well as obtain insurance, but only for the period of his legal stay in the Dominican Republic.

5.4 Other Important Items

Penalties

Expats should file their residency application in the Dominican migration authorities, within the 30 days after having entered the Dominican Republic with their NM1 visas. Fail to apply for the residency and the expat shall be fined with an overstay fee.

Back to top

kpmg.com