



Your Guide to Payroll in

Ecuador

lano

Running payroll in Ecuador

Despite potential language barriers when communicating with local authorities, processing payroll in Ecuador is not as difficult as it may seem at first. The **number of payroll-related registration processes is manageable**. Social security contributions are levied at a fixed rate which is the same for all employees. And the fact that Ecuador uses the U.S. dollar as its official currency further makes it easy to pay local employees.

Basic facts about payroll in Ecuador

- **Payroll cycle:** weekly or monthly
- **Tax year:** calendar year
- **Employer taxes:** up to 20.48%
- **Currency:** United States Dollar (USD)
- **Tax filing:** monthly
- **Payslip:** paper or electronic

Setting up payroll in Ecuador

International organizations looking to hire employees and process payroll in Ecuador should set up a local legal entity. At the end of the incorporation process, businesses will obtain a **local tax ID** (known as RUC, short for *Registro Único de Contribuyentes*) from the Ecuadorian Internal Revenue Service, which they need to complete the following payroll-specific registrations:

- Obtaining an access code for the **IESS online portal**, which is the platform used by the country's social security authority
- Obtaining the necessary credentials to access the online portal administered by the **Ministry of Labor**, through which businesses can register new hires, report terminations and more

New hires must then be registered on both systems by submitting the required information (identification, employment contract etc.). It is further necessary to **set up an in-country bank account** to issue payments to local employees and authorities.

Income tax and social security in Ecuador

The local social **security system is administered by a single authority** and contributions are levied at a universal rate of 21.6%, which comprises both an employer and an employee share. The tax system is based on progressive rates.

Tax considerations

Income tax on employment income is levied at **progressive rates ranging from 5% to 37%**. Annual income of up to USD 11,310 is exempt from income tax. Non-residents are taxed at a flat rate of 25%. The current tax table for residents is joined below.

Taxable income from employment includes any type of remuneration provided by the employer in cash or kind—including allowances and services. Social security contributions are deductible, as are the mandatory 13th and 14th salary. Personal expenses are also exempt from income tax; however, the deduction of such expenses is limited to either 10% or 20% of the employee's earnings (depending on annual income).

Individuals are taxed on income earned from employment activities carried out in Ecuador, regardless of their residency status—even if their wages and salaries are paid by a foreign entity. **Residents are also taxed on employment income earned abroad.** Special rules apply to non-residents only occasionally working in Ecuador for a foreign entity without a local branch.

Tax residency is determined based on the individual's physical presence in Ecuador. According to the current rules, individuals are considered to be tax residents if they spend more than 183 days in Ecuador during any given 12-month period.

2022 Tax Bands	Corresponding Tax Rates
Up to USD 11,310	0%
USD 11,310 – USD 14,410	5%
USD 14,410 – USD 18,018	10%
USD 18,018 – USD 21,630	12%
USD 21,630 – USD 31,630	15%
USD 31,630 – USD 41,630	20%
USD 41,630 – USD 51,630	25%
USD 51,630 – USD 61,630	30%
USD 61,630 – USD 100,000	35%
Above USD 100,000	37%

Tax withholding and reporting

Income tax must be withheld from employee wages and salaries and remitted to the local authorities **on a monthly basis**. The date by which withheld taxes must be paid varies depending on the last digits of the tax number. The authority in charge is the Ecuadorian Internal Revenue Service, *Servicio de Rentas Internas (SRI)* in Spanish.

In addition to the monthly tax payments, employers have to file a **monthly income tax withholding report** which details the employee's taxable income from that month as well as the deducted income tax. An **annual report of withheld income tax** for the previous financial year is due in January.

Individuals are required to file an annual tax return if their yearly income exceeds USD 11,310. For this purpose, they receive an annual tax summary from their employers. The **tax year runs from 1 January to 31 December**.

Social security contributions

The local social security system is **administered by the Ecuadorian Institute of Social Security, Instituto Ecuatoriano de Seguridad Social (IESS)**. The system comprises different social insurances, including individual and family health insurance, employment injury insurance, disability insurance, old age insurance, survivors pensions, and the national reserve fund. Employees must be enrolled in the social security system from the first day of work.

Contributions are shared between employee and employer. **Employees contribute at a rate of 9.45%** of their monthly taxable income. The **employer share is fixed at 12.15%**. When determining the calculation base for social security contributions, employers have to consider basic wages and salaries as well as overtime pay, commissions and any other remuneration provided to the employee—except the 13th and 14th salary.

Starting with the employee's second year of service, employers further have to make **monthly reserve fund payments**. These additional payments equal 8.33% of the employee's gross monthly salary and can either be paid directly to the employee or into a reserve fund account with the IEISS. No income tax or social security contributions are levied on reserve fund payments.

Contributions must be paid before the 15th of every month. Employers are further required to file a monthly social security declaration which details the contributions withheld and paid on behalf of each of their employees. Declarations are submitted via a central online platform operated by the IEISS.

Contribution Type	Employer Rate	Employee Rate
Social Security	12.15%	9.45%
Reserve Fund *	8.33%	/
Total	up to 20.48%	9.45%

* Only applicable once the employee has completed the first year of service.

Employment obligations

Employees in Ecuador are entitled to various benefits. These include:

- **Annual leave and public holidays:** 15 days of paid annual leave (including weekends) during the first 5 years of service; thereafter, the employee's annual leave entitlement increases by 1 day for every additional year of service; 11 public holidays
- **Maternity leave:** 12 weeks of paid maternity leave (14 weeks in case of multiple births)
- **Paternity leave:** 10 days of paid paternity leave (15 days in case of multiple births)
- **Sick leave:** up to 1 year of sick leave; the employer must pay 50% of the employee's usual wages during the first three days—for the first two months if the employee is not entitled to statutory sickness benefits

For more information on employee benefits and other employment requirements in Ecuador (including severance pay and termination procedures), check out our [Global Hiring Guide](#).



Compensation

In 2022, the **national minimum wage** in Ecuador rose to **USD 425 per month**—before, the monthly minimum wage was fixed at USD 400. Employees who work overtime must receive additional pay. The **pay rate of daytime overtime is 150%**—200% for additional hours worked during nighttime as well as for work performed on rest days and holidays.

In addition to their usual salaries and wages, employees in Ecuador are entitled to a **13th and 14th salary**. The 13th salary is a Christmas bonus and must equal one monthly salary—calculated as one-twelfth of the employee’s annual salary. The Christmas bonus has to be paid before 24 December.

The 14th salary, on the other hand, must be paid either by 15 March or 15 August, depending on the employee’s location, and should be equal to the national minimum salary. Both bonuses are exempt from income tax and social security payments. There also is a **legal requirement for profit sharing** in Ecuador.



Payroll requirements

The **pay period should be defined in the individual employment contract**. For physical labor, it’s common to pay employees on a **weekly** basis. Employees in office jobs or professions mainly requiring intellectual work are usually paid **monthly**. However, some businesses pay their employees in two installments, one payment of 40% of the monthly remuneration in the middle of the month and a second payment of 60% of the monthly remuneration at the end of the month.

Salary payments must be made from a local bank account and in the local currency, which is the United States Dollar (USD), and the receiving account must be in the employee’s name. **Payslips should be issued once a month**. Employers are free to choose whether they want to distribute payslips electronically or in paper form.

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