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Dominican Republic Country Overview

Chambers & Partners Latin America

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The Dominican Republic was again this year one of the top investment destinations in the Latin American and Caribbean region. Political stability, a strong economy and a pro-investment legal climate were the key factors.

The DR is a country with a long-standing democratic, free enterprise tradition. It has had regular elections and peaceful transfers of power since 1966. Its institutions are quite solid and the economy is extraordinarily robust, averaging close to 7.0% growth during the last three years, with very low inflation and a stable currency. The country's fiscal deficit, however, is starting to become a point of concern.

Overall, the DR's legal system is quite sophisticated, and it favours foreign trade and direct investment (FDI). Listed below are some of the salient characteristics of its legal system, highlighting the 'pros', as well as the challenges:

Pros:

- [The Foreign Investment Law of 1965](#) grants foreign investors exactly the same rights as domestic investors, guaranteeing full convertibility and repatriation rights of 100% of an investor's dividends and capital.
- [Other investment guarantees](#). Political risks, inconvertibility and expropriation insurance can be obtained through the United States' OPIC or the World Bank's MIGA.
- [Trade](#). The DR benefits from preferential trade access to the United States through the Dominican Republic - Central American Free Trade Agreement (DR-CAFTA), as well as to the European Union through the Cotonou Convention. Other countries and regional blocks are currently negotiating free trade agreements with the DR.
- [The Dominican Corporations Law](#) is very flexible. Limited liability corporations can be formed with a minimum of two shareholders. There are no nationality or residence requirements and foreign branches enjoy the same rights as domestic corporations. There is a strong movement to reduce red tape for business entities through simplified registration systems in the Mercantile Registry and the Tax Administration.
- [Free Zones](#). The DR continues to have a world-class system of free zones, which are manufacturing operations, primarily for the export market, located in special geographical areas (except certain 'Special Free Zones') that benefit from a 100% exemption on import duties, corporate tax, VAT, and other levies and taxes.
- [Tourism](#). The Promotion of Tourism Development Law No. 158-01 granted certain hotels and tourism facilities in specific regions substantial tax exemptions for a period of ten years.



- [Land ownership by foreigners](#). Whereas in the past foreigners needed presidential authorisation to own land in the country, such a requirement has been eliminated.
- [Taxation](#). The DR has a taxation system that is primarily territorial, with individuals and legal entities only subject to tax on their income originated from Dominican sources. The DR also has a flat tax concept. The current corporate and personal income tax rate, as well as the capital gains rate, is 27%. The VAT (sales) tax is a high 18% on most products.
- [Intellectual Property](#). The Industrial Property Law of 2000 guarantees strong protection of intellectual property rights and complies with the 1995 Marrakech TRIPS Agreement.
- [Film industry](#). The film industry in the DR has had explosive growth in the last few years on the back of Law No. 108-10, which grants very generous tax exemptions to investors in cinematographic projects. The law allows persons or entities to invest a portion of their tax bill in movie projects, thus rendering such investments essentially risk-free.
- [Trusts](#). Although trusts are primarily a common law concept, foreign to the civil law tradition of which the DR is part, in 2011 the DR enacted Law No. 189-11 for the Development of the Mortgage Market and Trusts. A local trust is defined as the act through which one or more individuals or legal entities, called grantors, transfer property rights to one or more legal entities, denominated trustees, in favour of one or more people, called beneficiaries. The concept has proved to be very popular in the construction industry.
- [Independent judiciary](#). The Dominican constitution establishes a system of government composed of three independent branches: Executive, Legislative and Judiciary. The justices of the Supreme Court are named by an independent National Council of the Magistrates, and the Supreme Court in turn names most lower court judges from the ranks of those judges trained through the National School of Magistrates. The Judiciary branch controls its own budget.

Some challenges:

- [Distributor Protection Law](#). The DR has a stringent agent and distributor protection law that protects local agents and distributors from the termination (or failure to renew) of their distribution contracts without “just cause”. Failure to prove just cause can result in the imposition of substantial indemnities.
- [Labour law](#). Although wage scales in the DR can be quite competitive, and employers are free to terminate employees without requiring authorisation by the Administration, the severance benefits can be high, roughly amounting to six weeks' salary per year of



employment. Dominican labour law is quite protective of employee rights and labour courts tend to favour the workers.

- [Energy sector](#). A chronic problem of the Dominican economy over the last decades has been the energy sector. A reliable system of energy production and distribution is still a challenge and periodic blackouts continue to afflict the country. Most companies have adapted to such reality over the years and standby generators are the norm.
- [Capital markets](#). Notwithstanding the enactment of the Securities Law No. 19-00 of the year 2000, the securities market is still small in the DR, with most activity being limited to trading in commercial paper and very little in equities.
- [Litigation](#). Although the courts are independent, litigation can be slow, expensive, and quite procedural. The enforcement of judgments can be a particular challenge.

In conclusion:

The fast-growing Dominican economy continues to outperform regional competitors, while enjoying enviable political stability. M&A activity is vigorous, including public-private partnerships. New infrastructure projects are being developed, improving the local highway system, sea ports and electrical generating capacity.

So, it's not only beautiful beaches, a warm and inviting population, and a wonderful geographical location that the Dominican Republic has to offer. It is also a great place to do business.

Preparado Por:

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