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Report Name: Proposed Tax Reform Likely to Have a Negative Impact over US Agricultural Exports to the Dominican Republic

Country: Dominican Republic

Post: Santo Domingo

Report Category: Agricultural Situation, Livestock and Products, Agriculture in the Economy, National Plan, Agriculture in the News

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Report Highlights:

On October 7, 2024, the Government of the Dominican Republic announced a proposed a tax reform bill that could have significant implications for U.S. agricultural exports, particularly in the pork, beef, and beverage sectors. The proposal has sparked considerable public opposition and protests. Key changes include a shift to an 18 percent Value Added Tax (VAT) on most consumer-oriented products and selective taxes on alcoholic beverages will increase, leading to an estimated 17 percent rise in retail prices, while a new tax on "sugary" non-alcoholic beverages could raise prices by 11 percent.

Introduction

On October 7, 2024, the Government of the Dominican Republic announced a tax reform bill aimed at increasing public income to reduce external debt and improve basic services for the population. The proposed bill has been submitted to the Dominican Chamber of Deputies (the lower chamber) and is currently under public review and discussion. Opposition rose swiftly from numerous industry and consumer representatives leading to protests, including daily “cacelorazos” (pot-banging) in middle-income areas of Santo Domingo to express general discontent with the proposed tax hikes.

Proposed Measures and Impact on U.S. Agricultural Exports

The proposed bill includes three specific measures likely to negatively impact U.S. agricultural exports to the Dominican Republic:

1. **Value Added Tax (VAT) on most consumer-oriented products**

The tax reform bill proposes to replace the Transfer Tax for Goods and Services (ITBIS) with a Value Added Tax (VAT or IVA in Spanish) and broaden its implementation to cover most consumer-oriented products. Under the current tax structure, many basic consumer goods are exempt from ITBIS; however, the new bill would only exempt seven agricultural products: bread, rice, poultry, eggs, milk, plantains, and cassava. The VAT would be set at 18 percent for all other agricultural and food products.

Table 1
U.S. Exports of Selected Agricultural Products to the Dominican Republic

Product	Value in 2023 (US$ Million)
Pork & products	276
Beef & products	107
Fresh vegetables	15
Fish products	13
Potatoes	6

Source: Built by FAS/Santo Domingo with data from GATS/USDA.

Both U.S. pork and beef exports to the Dominican Republic are likely to be most adversely affected by this proposed reform.

In the case of pork & pork products, which have become the most important U.S. agricultural export to the Dominican Republic, an 18 percent price increase may drive consumers to opt for a less expensive option such as poultry, negatively impacting U.S. pork exports. Since the detection of African Swine Fever (ASF) in July 2021, retail pork prices in the Dominican Republic have already risen by 22 percent.

For beef & beef products, the majority of U.S. beef exports consist of high-value cuts (e.g., angus, choice), with retail prices ranging from US$11.50 to US$16.50 per pound. In contrast, locally produced beef sells for US$3.00 to US$4.00 per pound. An 18 percent price increase on U.S. beef would make these products much less accessible to Dominican consumers, leading them to consume more locally sourced beef or alternate protein sources.

2. **Increase of selective tax and ad valorem for alcoholic beverages**

Alcoholic beverages are already among the most heavily taxed products in the Dominican Republic. Currently, they are subject to a selective tax of RD$724.12 (US$12.07) per liter and an additional 10 percent ad valorem tax. The proposed reform seeks to increase the selective tax to RD$840 (US$14.00) per liter and the ad valorem tax to 11 percent.

Table 2
U.S. Exports of Alcoholic Beverages to the Dominican Republic

Product	Value in 2023 (US$ Million)
Distilled spirits	38
Wine & related products	25
Beer	11

Source: Built by FAS/Santo Domingo with data from GATS/USDA.

The increase in both the selective and ad valorem taxes will likely result in an approximate 17 percent increase in retail prices, reducing formal demand for these products and potentially increasing counterfeiting and illegal trafficking.

3. **New selective tax on non-alcoholic beverages**

The proposed tax reform introduces a new selective tax on non-alcoholic beverages containing added sugar, structured as follows:

Table 3
Proposed Selective Tax for Non-Alcoholic Beverages that Contain Added Sugar

Added sugar per 100 ml	RD$ per 100 ml	US$ per 100 ml
<5.0 grams	0.00	0.00
More than 5.01 grams and less than 10 grams	0.60	0.01
>10.01 grams	1.00	0.02

Source: Proposed tax reform bill.

Specific U.S. non-alcoholic beverages of export importance to the Dominican Republic that could be impacted by this new selective tax include:

Table 4
U.S. Exports of Selected Non-Alcoholic Beverages to the Dominican Republic

Product	Value in 2023 (US$ Million)
Fruit & vegetable juices	29
Non-alcoholic beverage (excluding juices)	14

Source: Built by FAS/Santo Domingo with data from GATS/USDA.

To highlight the potential impact of this new tax, a standard 12-ounce (355 ml) can of cola, containing approximately 39 grams of added sugar, currently retails for about US$0.66. With more than 10.01

grams of added sugar, the can would incur a tax of US$0.02 per ml (totaling US$0.07). Consequently, the retail price would increase 11 percent to approximately US$0.73.

OAA Santo Domingo will continue to track the bill's progress and publish a GAIN report with the final text of the bill once signed into law.

Attachments:

No Attachments.