



El Salvador

Investment Guide



El Salvador





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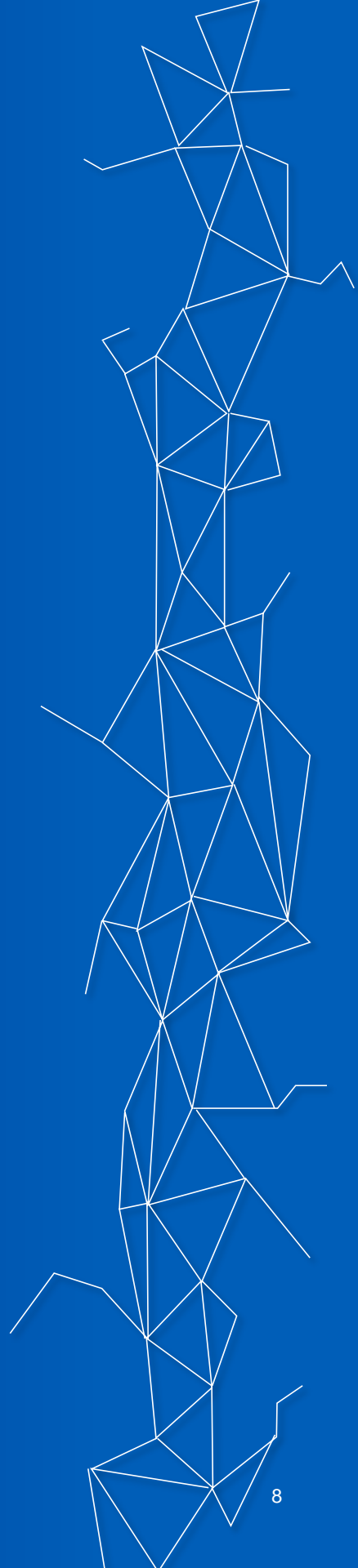
Acronyms

Acronym	Meaning
AFP'S	Administradoras de Fondos de Pensiones
SAP	Sistema de Ahorro para Pensiones
Art.	Artículo
AT	Administración Tributaria
BCR	Banco Central de Reserva
CBA	Canasta Básica Alimentaria
CT	Código Tributario
DGII	Dirección General de Impuestos Internos
DIGESTYC	Dirección General de Estadística y Censos
EHPM	Encuesta de Hogares de Propósitos Múltiples
FMI	Fondo Monetario Internacional
ISR	Impuesto sobre la renta
ISSS	Instituto Salvadoreño del Seguro Social
IVA	Impuesto al Valor Agregado
NIT	Número de Identificación Tributaria
NRC	Número de Registro de Contribuyente
OPS	Organización Panamericana de la Salud
PROESA	Organismo Promotor de Exportaciones e Inversiones de El Salvador
SIEPAC	Interconexión Eléctrica de los Países de América Central





General Information



General Information

Population

The EHPM reports that in 2018, the total population of the country was 6,642,767 inhabitants, of which 4,096,070 reside in the urban area and 2,556,697 in the rural area, which in relative terms represents 61.7% and 38.3% respectively.

Geography

El Salvador is located in Central America. It has an area of 21,041 km², bordering to the north and east with Honduras, to the south with the Pacific Ocean, to the west and northwest with Guatemala and to the far southeast end with the Gulf of Fonseca, separating it from Nicaragua. El Salvador is divided into 14 departments and 262 municipalities, San Salvador being the capital and the largest city in the country.

Education

In El Salvador 20% of the employed population has finished 7 to 9 years of school, 27.3% finished 10 to 12 years and 15.3% a total of 13 or more years of school.

El Salvador has a variety of Technical Institutes and Universities:

- 24 universities
- 11 specialized Institutes
- 6 technical institutes

Every year 22.4 thousand Technicians and Professionals enter the Salvadoran labor force. Employers who require their active employees to continue their learning and training can seek the support offered by the Salvadoran Institute for Vocational Training (INSAFORP), an autonomous government agency that offers training to meet the needs of human resources.

Infrastructure

The World Economic Forum positions El Salvador's infrastructure among the most competitive in Latin America and the Central American region. Modern infrastructure, airports and roads allow companies to carry out their logistics operations efficiently, while modern and advanced telecommunications and electricity markets also guarantee access to quality services and supplies at competitive prices.

Roads

The country has a modern and efficient road network that interconnects the main cities and offers easy and fast access to the rest of the region. The World Economic Forum has positioned El Salvador among the countries with the best road infrastructure in the Central American area.

¹ DIGESTYC - 2018 Multi-Purpose Household Survey

² 2018 Export and Investment Promotion Agency of El Salvador, Investor's Guide

³ 2018 Export and Investment Promotion Agency of El Salvador, Investor's Guide

General Information

Airports

In the country's airport system, the Monsignor Oscar Arnulfo Romero International Airport stands out as an important regional hub and high-level maintenance center for commercial aircraft.

Ports

El Salvador has a port infrastructure that meets the needs of maritime cargo, including:

- Port of Acajutla
- Port of La Unión

Electric Energy

The Salvadoran electricity market is the most open in the region, given that the legislation of the country promotes a competitive market and the participation of the private sector in the generation, distribution and commercialization of electric energy, which is carried out by two solid private participants, Grupo AES and Distribuidora de Electricidad del Sur.

In addition, Salvadoran regulation allows companies to generate their own energy and sell their surplus.

Telecommunications

The telecommunications market in El Salvador ensures high quality services at competitive prices. Users benefit from the existence of various competitors and a wide coverage of

services. The main telecommunications companies are making significant investments that guarantee a continuous development of the telecommunications infrastructure and the adoption of the latest technologies.

Life Expectancy

According to the PAHO report, "Health Status in the Americas: Basic Indicators", the life expectancy of men is 69 years of age and for women it is 78.

Cost of Life

The cost of the basic market basket in the urban area, for an average household of 3.46 members is USD184.76 and the cost of the expanded basic basket USD369.53. The cost of the basic market basket in the rural area, for an average household of 3.71 members is USD126.25 and of the enlarged basket is USD252.50 .

Currency

The Monetary Integration Law establishes the US Dollar and the Colon as the legal tender of El Salvador .

Currency Provisions

The dollar is the legal tender in El Salvador and it is used for all commercial and bank transactions.

General Information

Investment Opportunities

Aeronautics

With more than 30 years of experience in the development of the aeronautical industry, El Salvador has positioned itself as a benchmark in the global aeronautical map, mainly in aircraft maintenance.

Maintenance services are provided in El Salvador to aircrafts of major commercial airlines such as American Airlines, Southwest Airlines, DELTA Airlines, LAN, COPA Airlines, Avianca and Volaris.

The country has an emerging aeronautical cluster that incorporates private actors and government agencies, and investment opportunities can be found in the following areas:

- Commercial aircraft maintenance service operations
- Ground Services
- Helicopter maintenance and assembly operations
- Manufacture of airframe LSA (Light Sport Aircraft), and engine parts.
- Assembly of aeronautical harness systems
- Sub-assembly of aerostructures
- Among other.

Agroindustry

El Salvador offers an ideal location for food production and processing, as well as to serve specific markets that go beyond traditional agricultural industries.

Energy

The government of El Salvador has an energy policy that covers the period from 2010 to 2024, which includes the diversification of the energy production and the promotion of renewable energy sources, among its strategic lines, in addition to innovation and technological development, and the regional energy integration through the Central American interconnection line SIEPAC. The Tax Incentives for the production of renewable energies is currently in force.

General Information

Manufacturing Industry

El Salvador offers investment opportunities for companies that manufacture medical, chemical-pharmaceutical and cosmetic devices, footwear, auto parts, electronic components that target the markets of the United States, Canada, Mexico, Central America and the Caribbean.

Investment opportunities in the manufacture of:

- Auto parts: (harnesses, automated clothing, safety systems and sensors)
- Medical devices (hospital medical supplies, orthopedic products and hospital furniture)
- Chemical-pharmaceutical (generic drugs, vitamin supplements, phyto-pharmaceuticals)
- Electronic components (electronic capacitors, transistors, resistors, etc.)
- Footwear (Manufacture of footwear, assembly of components and parts, preparation of accessory supplies).

Off-Site Business Services

The off-site business services industry, offers services from inside to the outside of the country. El Salvador has experienced unprecedented growth in recent years, offering the following investment opportunities:

- i. **Contact Centers**
 - Sale of products
 - Order taking

- Customer services
- Incoming or outgoing calls
- Among other

- ii. **Business processing services**

- Data consolidation
- General Accounting
- Order Processing
- Human Resource Management
- Among other

- iii. **Information technology services**

- Software development, testing, business process management and process management.

Tourisms

El Salvador extends over a coastal plain and volcanic highland in the interior, limiting to the south and southwest with the Pacific Ocean, to the north and north-west with Guatemala, to the north-east with Honduras, so investment opportunities are ample in this sector.

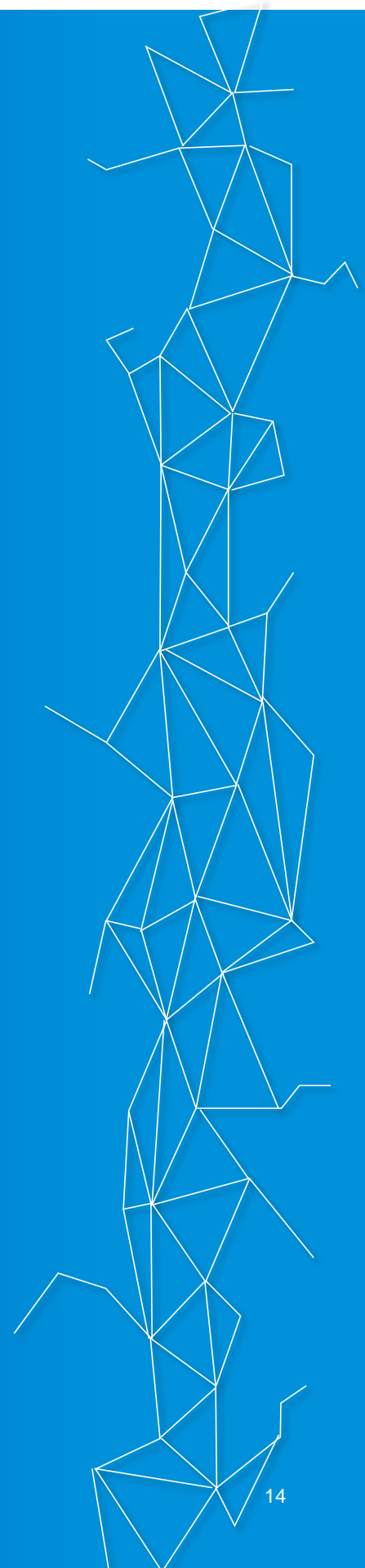
Textiles and Apparel

The textile and apparel sector is one of the main engines for the development of El Salvador, with a value chain that has been consolidating and integrating itself towards products with greater added value.





Legal System Overview



Legal System Overview

Entities Available for Business

According to the Code of Commercial Concerns of El Salvador, there are two kinds of companies, those of people and of capital. Below we present the most commonly used legal figures according to the company type.

Capital Company

Capital companies are classified into two categories

- a. Partnership limited by shares
- b. Limited company

Main features:

	Partnership Limited by Shares	Limited Company
Shareholders:	There are two types of partners: active and limited partners.	It consists only of shareholders, who make capital contributions.
Liability	Active partners respond unlimitedly, jointly and severally to social obligations. Limited partners are only bound to the limit of the value of their shares.	Shareholders are required to respond up to the limit of the value of their shares.
Denomination	The Company name is made up of the names of one or more active partners, followed by the words "and company" or other equivalents. The words "limited partnership" or its abbreviation "S. in C." will be added to the company name	The Company name is immediately followed by the words "Sociedad Anónima" (S.A.) (Limited Company).

Legal System Overview

	Partnership Limited by Shares	Limited Company
Capital	<p>Share capital stock shall be divided into shares.</p> <p>The shares of the active partners shall be registered and may not be transferred without the unanimous consent of the members of their class and of the absolute majority of the limited partners.</p> <p>The variable capital regime may be adopted, in which case a minimum capital is established.</p>	<p>Share capital will be divided into shares.</p> <p>Shares will always be registered until their value has been paid in full.</p> <p>Once the full value of the shares has been paid, bearer bonds will be issued.</p> <p>The variable capital regime may be adopted, in which case a minimum capital is established.</p>
Administration	<p>Active or Managing partners shall manage the company.</p>	<p>Administration shall be in charge of one or several directors, who may or may not be shareholders.</p> <p>Administration may also be in charge of several people, in which case a Board of Directors must be established.</p> <p>In both cases they are elected by the General Shareholder Meeting.</p>

Legal System Overview

Characteristics of a Corporation

The Public Limited Company is the most commonly used company in El Salvador, which is equivalent to a Corporation. Here are its main features:

Aspect	Detail
Share Capital	<ul style="list-style-type: none">• At least 5% of the legal minimum capital is paid at the time of incorporation.• It is constituted with a minimum of US \$ 2,000 and must be fully subscribed.• It can adopt the Variable Capital regime, in which case a minimum capital is indicated.• Contribution in kind is accepted as appraised by an authorized auditor.
Shares	<ul style="list-style-type: none">• These are securities.• They are registered as long as their value has not been fully paid.• Nominal value of an integer dollar or multiple of one.• They are indivisible• They confer equal rights. However, the deed can establish several kinds of shares with special rights.
Administration	<ul style="list-style-type: none">• Shareholders may be natural persons or companies, whether domiciled or foreign.• Under the direction of one or more directors (shareholders or not) appointed for a fixed period of time by the General Shareholders Meeting.• If more than one director, a board of directors will be set up and its chairman will have the representation of the company.• The General Shareholders Meeting is the supreme body of the company, which will meet at least once a year.
Legal Reserve	<ul style="list-style-type: none">• 7% of net profits will be allocated annually and the legal minimum limit will be one fifth of the share capital. Two thirds of this reserve must be available or invested in commercial securities that are easily marketable.

Legal System Overview

Advantages of the corporation

The following are key aspects of the corporation commonly used in El Salvador:

1. Since it is a company open to the public, any partner may be admitted, and may set up a very large share capital.
 2. It enjoys greater economic stability thanks to the easy access to capital to become part of the corporation
 3. Partners have limited responsibility
 4. If the variable capital regime is used, and there are no changes in the minimum capital established in the articles of incorporation, the shareholder's agreement is sufficient together with the its recording in the book that the Company keeps for this purpose
 5. To sell or transfer shares, it will be sufficient to record the sale in the book of shareholders that the company keeps for these purposes. In the same way the shares are transferable by simple endorsement.
3. Appoint an external auditor
 4. Keep accounting and administrative books.
 - General Ledger
 - Shareholders/partners
 - Capital increases and decreases
 - General Shareholders Meetings/partners
 - Board of Directors (if applicable).
 - Financial Statements
 5. Record the financial statements at the Registry of Commercial Concerns
 6. Deposit the external auditor's annual report

Commercial obligations applicable to companies

Regardless of the type of company, some of the most relevant commercial obligations are detailed below:

1. Annually renew the registration as a trader at the Registry of Commercial Concerns
2. Keep formal accounting, according to the

standards approved by the Supervisory Board of Public Accounting or Audit (IFRS or IFRS for SMEs)

Legal System Overview

Procedures and permits to start a business

Procedure to formalize an investment as a Legal entity

As part of the procedures to improve the business climate, El Salvador created a single channel for the constitution of companies and their registration at the Registry of Commercial Concerns. These procedures can be done via the web at: www.miempresa.gob.sv. With this, El Salvador has become one of the 28 countries in the world with a one stop virtual window for starting businesses .

Online procedures:

- Registration of the company in the Registry of Commercial Concerns
- Company and establishment registration
- NIT (Tax ID number) – VAT Card (NRC)
- Authorization for the issuance of correlatives before the Ministry of Finance: Invoice, tax credit voucher, remittance note, credit note, debit note, export invoice, simplified sales invoice, settlement receipt, settlement accounting document.
- Registration of company or establishment in the Ministry of Labor
- Employer registration at the Social Security Institute (ISSS) (NIP)
- Employer registration at the Pension Fund (AFP)
- Registration at the City Hall of San Salvador, Santa Ana

Steps for the creation of a commercial company



Legal System Overview

Visas and work permit

El Salvador is part of the agreement to create the Central American Single Visa for the Free Mobility of Foreigners through the Republics of El Salvador, Honduras, Guatemala and Nicaragua. This agreement defines, according to the country of origin of the visitor, the type of visa (or exemption) to enter any of the Central American countries signing the agreement.

Types of visas in El Salvador

- Exempt Visa (Visa-exempt passports)
- Exempt Visa with tourist card payment (Visa-exempt passports): The tourist card is acquired at established border entry points or at the El Salvador International Airport.
- Consular Visa (Tourism, Business, Official, Transit, Conference, Congress, Studies, Research, Others): Granted by the Diplomatic or Consular Representations of El Salvador.
- Consulted Visa (Tourism, Business, Official, Transit, Conference, Congress, Studies, Research, Others): Granted prior authorization of the General Directorate for Migration and Foreign Services.

Legal System Overview

Types of Residences in El Salvador

- Temporary residence with authorization to work (Dependent work and residence permit): Foreigners may apply for a temporary residence with the authorization to work given by the General Directorate of Migration and Foreign Services with the opinion of the Ministry of Labor and Social Welfare for Central Americans and Panamanians and for non-Central Americans when the employer is a legal entity or is an individual merchant.
- Temporary residence for investors (Residence permit): Foreigners may apply for residence as investors provided that their investment exceeds the four thousand minimum monthly salaries in force in the commerce and services sector in El Salvador. An Investor Residence may be requested by the legal representative of the foreign branch of a national company that has been established in the country for Central Americans, Panamanians and non-Central Americans.
- Temporary residence with special permission for workers or “braceros” (Dependent work and residence permit): Seasonal workers during times of harvest, which for reasons of public interest are needed due to the lack of Salvadoran labor.
- Temporary residence for people requesting permission to serve as representatives of corporations or companies (Dependent work and residence permit)
- Temporary residence for people who work in the country as interns and volunteers.
- Temporary residence for Catholic clergy
- Temporary residence for clergy of other denominations
- Provisional residence for renters 90 days for an individual person or a family group
- Temporary residence with authorization for university and technical students
- Final residence.

Legal System Overview

Characteristics of the labor regime

Employment Contracts

Individual employment contracts are classified according to their continuity:

Indefinite Term Contract: Certain Jobs that due to their nature are considered permanent in the Company, are considered entered into for an indefinite period of time, although a contract termination date is stated.

Contract for finished works: Subordinate services in the execution of a specific job will also be understood to be terminated on the contract deadline. When the worker finishes the job, he or she is responsible for, their contract term shall be terminated.

Contract for interim works: Employers may hire interim workers to fill in vacancies, and they will acquire all the rights of permanent workers, except for the immobility of their position.

Probation period in Contracts: Individual work contracts may stipulate that the first 30 days will be probationary. Within this term, either party may terminate the contract without expressing cause. After thirty days, if neither party has expressed their will to terminate the contract, it will continue indefinitely.

Legal System Overview

Labor Benefits

The Salvadoran legislation establishes the following labor benefits:

Concept	Description	Source
Annual vacation	Remunerated vacations are paid once a year and correspond to fifteen calendar days plus 30% of the biweekly salary. The annual enjoyment of said vacation period is mandatory and it is prohibited to offer a monetary compensation to not enjoy them.	Art. 177 CT
Professional training (INSAFORP)	Applicable only to companies with 10 or more employees. The Employer pays a 1% contribution over the base salary.	Art. 26 Professional training Law
Christmas Bonus	Is paid once a year in December, in relation to the years worked: 1-3 years (15 days of salary), 3-10 years (19 days of salary), 10 or more years (21 days of salary).	Art. 196 and 198 Labor Code
Voluntary resignation Benefit	A worker who has at least two continuous years of service, will be entitled to 15 days of salary for each year of service, with a maximum of twice the current minimum wage, for which the employee must give 30-day prior notice in writing in the case of managers, workers at the main office, and specialized workers and 15 days for the rest of the workers.	Art. 8 of the Law Regulating the Economic Benefit for Voluntary Resignation
Compensation for dismissal	A worker dismissed without just cause, shall receive 30 days of salary up to a maximum of 4 times the minimum wage in force, for each year of service provided and proportionally for fractions of the year	Art.58, of the Labor Code)

Legal System Overview

Minimum Wage

The Salvadoran legislation in its Executive Decree No. 5, D.O. 240, Volume 417 of December 22, 2017, established the following minimum wages for each economic branch:

Wage	Agroindustry USD	Industry USD	Commerce and Services USD	Textile and Apparel Maquila USD
Hour	0.83	1.25	1.25	1.23
Day	6.67	10	10	9.84

Social Security Regime

Social Security

The mandatory Social Security regime shall be applied to all employed workers, regardless of the type of employment relationship between them and the way in which compensation has been established.

The employer must register at the Social Security Institute within a strict period of five working days from the date on which the company starts operations. Workers must be registered within ten business days from the date of entry into the company.

The contributions to the system are detailed below:

Concept	Description	Monthly Percentage	Source
Employer	Contribution on the salary of the employee up to a maximum of USD1,000.00	7.50%	Art. 29 ISSS Law
Employee	Contribution on the salary, up to a maximum of USD1,000.00	3.0%	

Legal System Overview

Pension Savings System

Membership in the System shall be mandatory when a person gets a job in a labor subordination relationship. The person must choose a Pension Administrative Institution and sign the respective affiliation contract.

The contributions to the system are detailed below:

Concept	Description	Monthly percentage	Source
Employer	Contribution on the salary of the employee up to a maximum of USD6,500.00	7.75%	Art. 16 SAP Law
Employee	Salary contribution up to a maximum of USD6,500.00	7.25%	

Registry of shareholders and last beneficiaries

In relation to shareholders, Salvadoran companies have the following obligations:

- **Obligation to register in the Taxpayers Registry.** All national or foreign shareholders must have their Tax Identification Number (NIT).

- Shareholders that are national companies shall apply for the NIT at the time of their incorporation as a company
- Shareholders that are foreign companies shall apply for the NIT before they proceed to constitute the Salvadoran society of which they are shareholders.

- **Report on Shareholders and profits:**

Salvadoran companies will have the obligation to send the list of people who have the status as partners, shareholders or cooperators of the respective legal entity in January, whether or not they have distributed dividends, surpluses or profits.

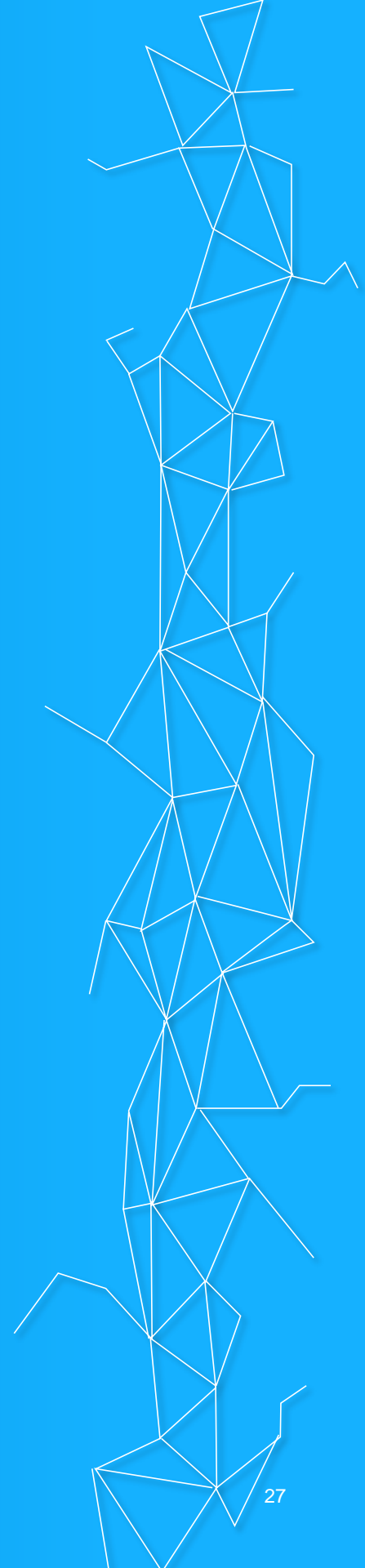
- **Shareholder registration:** Salvadoran companies must keep a book of shareholder records according to the nature of the company, in which the name of the shareholders, number and type or class of shares, the nominal value and total amount of the shares will be detailed, as well as the transfers made.

9 Código Tributario





Tax System Overview



Tax System Overview

Corporate income tax

General Aspects

Income Tax will be applied to the income gained by taxpayers in the fiscal year or tax period in question. The tax is applied to the net income gained in a given year, by following this formula: Taxable income less costs and deductible expenses.

Rates

For domiciled companies the tax rates will be the following:

Rate	Taxable event	Taxable Base
25%	Having a taxable income of less than or equal to USD150,000	Net income
30%	Having a taxable income greater than USD150,000	Net income

Source: *Income Tax Law with its reforms, Legislative Decree No. 134.*

Tax returns

The tax computed is settled through an affidavit, contained in the F-11 form, which must be submitted within 4 months after the tax year expires.

Tax System Overview

Partial Payments

The obligatory integers as an advance payment on income tax, are made monthly on gross income and are settled with the ISR return computed at the end of the year. The different applicable rates are as follows:

Classification	Rate
Natural persons who own commercial companies, distribute beverages, edible products or personal hygiene items, to whom their supplier assigns suggested retail prices or the profit margin	0.30%
Persons authorized to provide transportation services to the public.	0.30%
Legal persons holding companies for the sale of gasoline and diesel.	0.75%
All other taxpayers.	1.75%

Source: D.L. N°230, Tax Code of El Salvador reformed.

Tax System Overview

Alternative income tax regime

In El Salvador there is no alternative income tax regime.

Dividends

Taxable event

Payments or accreditation of dividends to partners or shareholders on profits from 2011 onwards.

Return

Withholdings made to the Salvadoran shareholders are automatically reflected in the F-11 at the time of filing the return online annually.

The foreign shareholder has no obligation to file a return, if the only income obtained in El Salvador corresponds to the dividends received.

Rate

The applicable rate is 5%, withheld at the time of payment or accreditation and corresponds to final income tax payment.

Withholdings on Remittances to a Foreign Country

As of January 2019, there are no taxes on bank transfers of any kind.

Taxes on Payrolls

The income tax on the payroll is calculated and withheld by the employer.

Taxable event

Income obtained from taxpayers in the fiscal year or period of taxation, for income from salaries, wages, bonuses, overtime, benefits, commissions, compensation, Christmas bonuses and any other compensation for personal services (permanent employees).

Return

The employer shall pay the withholdings using form F-14.

Rate

The ISR withholding that the employer must make to its permanent employees will be carried out according to the following withholding tables :

10 Legislative Decree 95, Income Tax Withholding Tables

Tax System Overview

a) Taxable salaries payable monthly:

	From	To	% Applied	In excess of:	Plus, a fixed rate of:
I TRANCHE	\$ 0.01	\$ 742.00		NO WITHHOLDING	
II TRANCHE	\$ 742.01	\$ 895.24	10%	\$ 472.00	\$ 17.67
III TRANCHE	\$ 895.25	\$ 2,038.10	20%	\$ 895.24	\$ 60.00
IV TRANCHE	\$ 2,038.11	Onward	30%	\$ 2,038.10	\$ 288.57

b) Taxable salary payable biweekly:

	From	To	% To be applied	On the excess of:	Plus, the fixed rate of:
I TRANCHE	\$ 0.01	\$ 236.00		NO WITHHOLDING	
II TRANCHE	\$ 236.01	\$ 447.62	10%	\$ 236.00	\$ 8.83
III TRANCHE	\$ 447.63	\$ 1,019.05	20%	\$ 447.62	\$ 30.00
IV TRANCHE	\$ 1,019.06	Onward	30%	\$ 1,019.05	\$ 114.28

c) Taxable wages payable weekly:

	From	To	% To be applied	On the excess of:	Plus, a fixed rate of:
I TRANCHE	\$ 0.01	\$ 118.00		NO WITHHOLDINGS	
II TRANCHE	\$ 118.01	\$ 223.81	10%	\$ 118.00	\$ 4.42
III TRANCHE	\$ 223.82	\$ 509.52	20%	\$ 223.81	\$ 15.00
IV TRANCHE	\$ 509.53	Onward	30%	\$ 509.52	\$ 72.14

Tax System Overview

Likewise, in June and December a semi-annual recalculation is carried out:

1) In June (First recalculation):

	Taxable wages		% To be applied	On the excess of:	Plus, fixed fee of:
	From	To			
I TRANCHE	\$ 0.01	\$ 2,832.00		No withholding	
II TRANCHE	\$ 2,832.01	\$ 5,371.44	10%	\$ 2,832.00	\$ 106.20
III TRANCHE	\$ 5,371.45	\$ 12,228.60	20%	\$ 5,371.44	\$ 360.00
IV TRANCHE	\$ 12,228.61	Onward	30%	\$ 12,228.60	\$ 1,731.42

2) In December (Second recalculation):

	Taxable wages		% TO BE APPLIED	ON THE EXCESS OF:	PLUS, A FIXED RATE OF:
	FROM	TO			
I TRANCHE	\$ 0.01	\$ 5,664.00		NO WITHHOLDING	
II TRANCHE	\$ 5,664.01	\$ 10,742.86	10%	\$ 5,664.00	\$ 212.12
III TRANCHE	\$ 10,742.87	\$ 24,457.14	20%	\$ 10,742.86	\$ 720.00
	\$ 24,457.15	Onward	30%	\$ 24,457.14	\$ 3,462.86

Tax System Overview

Expat tax treatment

Obtaining residence visas

All foreign natural persons working in El Salvador or foreign investors must opt for a visa and residence permits.

Obtaining legal social benefits

All foreign natural persons working in El Salvador are entitled to what is established in section 3.4.4., So they must be registered with the Salvadoran Social Security Institute and a Pension Fund Administrator of their choice.

Income Tax

All foreign natural persons working in El Salvador must comply with the provisions of sections 4.5 and 4.7.

All Salvadorans who are working abroad and receive their remuneration from a Salvadoran entity will continue to file their tax returns in El Salvador and adhere to the income tax table indicated in section 4.7.3

All Salvadorans who are working abroad and receive their remuneration from a foreign entity will continue to file their tax return declaring their income.

All Salvadorans who are working abroad and receive their remuneration from a foreign entity will continue submitting their income tax return in El Salvador, if they previously submitted their annual tax settlement at least once.

Tax System Overview

Individual's Income Tax

Taxable event

Income from the taxed exercise or period

Tax Return

All domiciled natural persons who receive income in El Salvador must pay their tax in the F-11 which is available only online on the website of the Ministry of Finance

Rate

Income Tax will be calculated in accordance with the following table:

	Net or taxable income		% To be applied	On excess of:	Plus, a fixed rate of:
	From	To			
I TRANCHE	\$ 0.01	\$ 4,064.00		EXEMPT	
II TRANCHE	\$ 4,064.01	\$ 9,142.86	10%	\$ 4,064.00	\$ 212.12
III TRANCHE	\$ 9,142.87	\$ 22,857.14	20%	\$ 9,142.86	\$ 720.00
IV TRANCHE	\$ 22,857.15	FOREWARD	30%	\$ 22,857.14	\$ 3,462.86

Tax System Overview

Taxes on capital (income, profits and losses)

Taxable event

Profits earned by natural or legal persons that are not usually dedicated to the sale, exchange, or other form of negotiation on movable or immovable property, provided that said goods are not marketed within the twelve months following the date of acquisition, since in this case gains will be added to the ordinary taxable net income and the tax will be calculated as ordinary income.

Tax return

The capital gain tax will be settled in F-11 and the report of capital gains and/or losses F-944 must be attached.

Rate

The income tax payable for the capital gain shall be the equivalent of 10% of said earnings.

Tax System Overview

VAT/ITBMS/Sales Tax

Overview

VAT is applied to the transfer of movable property and the provision of services.

Taxable event

The application of the rate to the tax base, determines the tax that is caused by each operation carried out in the corresponding tax period and that for the purposes of this tax, is called Fiscal Debit. Below you can distinguish the following facts:

- Transfer of domain against payment of tangible movable property.
- Withdrawal or reversal of personal movable assets of the companies' receivables, even from its own production, carried out by the taxpayer earmarked for own use or consumption of the partners, Board or staff of the company.
- Withdrawals of personal movable property earmarked to raffles, or free distribution for promotional purposes, propaganda or advertising, whether or not they are made by the company, realized by the taxpayers of this tax.
- Importation and definitive admission into the country of personal property and services.
- Rendering of a service arising from acts, conventions or contracts in which one party is obliged to provide it and the other is obliged to pay an income, fee, commission, interest, premium, royalty, as well as any other form of remuneration.
- Use of taxpayer services, earmarked to own use or consumption of partners, Board, proxies or company staff, the family group of any of the above or to third parties.

Tax System Overview

Tax Return

The taxed period is one calendar month, in which the taxpayers responsible for the tax must issue a monthly affidavit on the taxed and exempt operations, and on non-subject transactions made during the period (F-07).

Rate

The applicable rate will be 13% on the tax base.

Tax Credit

For taxpayers, the amounts charged by taxes on the tax credit vouchers for the acquisition of personal movable goods or services and the taxes paid for the imports and internment of goods and services, shall constitute their tax credit deductible from VAT tax debit for each period.

If the amount of the tax credit is greater than the total tax debit for the fiscal period, the surplus thereof will be added to the tax credit of the following or subsequent fiscal period until it is totally deducted.

The exporter that does not have liquid, firm and enforceable tax debts that can be compensated with said tax credit, may request the DGII to reimburse the remaining balance.

The amounts withheld for purchases made or services used, if covered by the respective withholding vouchers, also constitute a tax credit for the withholding agent.

Tax on the transfer and ownership of real estate

Taxable event

Real estate transfers

Tax return

Form F-09 delivered within 60 days of the property transfer, accompanied by a deed of sale affidavit, certification of the auction document or the order of adjudication as the case may be.

Rate

If the value of the property is:	The tax will be
Up to USD28,571.43	Exempt
From USD28,571.44 onward	3%

Tax System Overview

Other taxes

Municipal taxes:

Taxes are paid according to the rates established in each of the 262 municipalities, whose tax base is mainly the total asset. Rates vary according to the activity of the company.

Other tax compliance regulations

Transfer prices

Study

The Tax Code establishes the obligation for all taxpayers that carry out operations or transactions with related or domiciled subjects, constituted or located in countries, states or territories with low or zero taxation regimes or tax havens, to determine the prices and amounts of the valuable considerations, taking into account the market prices for the transfer of goods or provision of services of the same kind for these operations, among independent subjects.

Declaration

Only taxpayers that have carried out transactions which individually or jointly are equal to or greater than USD571, 429 shall fill in form F-983 and send the file to the website of the Ministry of Finance reporting the

operations executed with said subjects.

Masterfile

In El Salvador, the Master File has not been adopted as a document guideline for transfer prices.

Country-by-country

In El Salvador, country by country has not been adopted as a document guideline for transfer prices.

Tax System Overview

Tax Audit

Taxpayers who meet the following conditions are required to audit themselves and to appoint an independent auditor for that purpose:

- a. Having owned a total asset exceeding USD1, 142,857 as of December thirty-first of the year immediately preceding the one ruled;
- b. Having gained a total income in the previous year that exceeds 4,817 minimum wages of the Commerce and Services Sector, calculated in dollars of the United States of America; (approximately USD1,445,100)
- c. Persons with a legal status resulting from the merger or transformation of companies must comply with this obligation for the year in which said events occur and for the following;
- d. The companies under settlement shall have this obligation for each one of the periods or fiscal years, as the case may be, from the date the dissolution is registered until the date the settlement procedures is completed but prior to its inscription.

The Auditor appointed shall submit the fiscal opinion together with the fiscal report, financial statements, tax conciliations and supplementary information, no later than May thirty-first of the year following the period ruled.

Tax System Overview

Treaties on Information Exchange and Double Taxation

The following conventions have been ratified in El Salvador:

Agreement related to the exchange of information

- Agreement on Mutual Administrative Assistance in Fiscal Matters:

In the context of the OECD Global Forum on Transparency and Exchange of Information for Fiscal Purposes, El Salvador signed the Agreement on Mutual Administrative Assistance in Fiscal Matters that is in force since December 1, 2018, which allows 112 signatory States to fight against international tax evasion and foster better enforcement of internal tax laws. The treaty includes the exchange of information on simultaneous tax audits and participation in audits abroad, also assistance in the collection, notification or transfer of documents.

- Mutual Assistance and Technical Cooperation Agreement among the Tax and Customs Administrations of Central America

In the context of the Central American Economic Integration, the countries of El Salvador, Costa Rica, Nicaragua and

Honduras signed this Agreement that has been in force since August 2012, which allows the signatory States to establish the provisions and mechanisms, through which the Administration's mutual assistance and technical cooperation will be provided in the areas of management, control and collection and will be applied to the information and documentation related to current taxes, to any legislation that modifies them or establishes new taxes, after signing the Agreement.

Agreement against double taxation

Agreement between the Republic of El Salvador and the Kingdom of Spain to avoid double taxation and prevent tax evasion in relation to income and wealth taxes, in force since 2008.

Tax System Overview

Tax incentives available and special business areas

In El Salvador there is a set of laws that promote and protect investment, providing attractive benefits to local and foreign investors.

Each of the existing incentives is briefly described below:

Investment Law

This Law streamlines the procedures for making investments in the national territory, ensuring equal treatment to all investors (foreign and national), as well as guaranteeing their right to transfer abroad the funds related to their investment.

This Law applies to companies exporting national or foreign goods which use the Free Zones and Deposits for Active Improvement (DPA) for certain activities. This Law benefits by giving tariff exemptions, real estate transfer exemption, ISR exemption according to certain criteria, exemption on distributed dividends and municipal taxes exemption according to certain criteria.

Law on Industrial and Commercial Free Zones

This Law applies to companies exporting national or foreign goods which use the Free Zones and Deposits for Active Improvement (DPA) for certain activities. This Law benefits

by giving tariff exemptions, real estate transfer exemption, ISR exemption according to certain criteria, exemption on distributed dividends and municipal taxes exemption according to certain criteria.

International Services Law

This law benefits those companies dedicated to the provision of certain services for foreign customers established in parks or service centers. This law provides exemption from customs duties and other taxes on the importation of goods earmarked to the activity enjoying incentives, total exemption from the ISR for income resulting from the activity incentivized, and total exemption from municipal taxes.

Tourism Law

This law establishes that a tourism company may qualify to be declared a tourism project of national interest and opt for benefits such as: tax exemption on the transfer of real estate for the project, customs duties exemption on the importation of goods and construction materials for project buildings, total income tax exemption for a period of 10 years and partial exemption on municipal taxes (50%) for a period of 5 years.

Tax System Overview

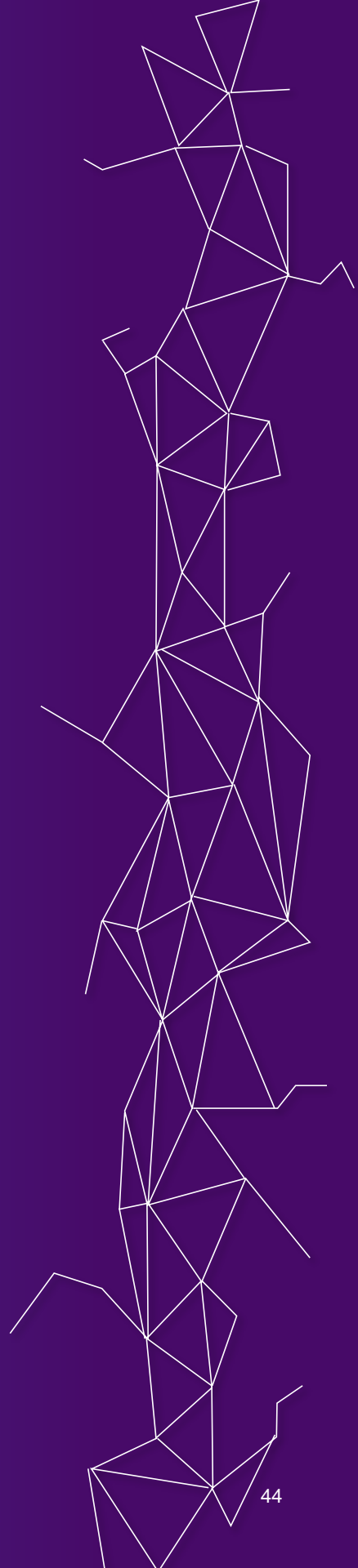
Law on Tax Incentives for the Promotion of Renewable Energies in power generation

This Law seeks to encourage investments through harnessing hydraulic, geothermal, wind, solar, marine, biogas and biomass resources, and any other source identified as renewable. This Law provides import duties exemption (during the first 10 years) on goods for investment and pre-investment in the construction and expansion of power generation plants, income tax exemption for a period of 5 years for projects greater than 10 megawatts and 10 years for projects of 10 or less megawatts; total tax exemption on income directly from the Certificates for Reduced Emissions (CER).





Accounting Regulations



Accounting Regulations

Regulations in force

Merchants (with a legal status) domiciled in El Salvador, are required to keep duly organized accounting records, in accordance with International Financial Reporting Standards (IFRS) or the International Financial Reporting Standard for SMEs, as established by the Surveillance Board of the Public Accounting and Audit Professions.

Commercial companies and individual limited liability companies are required to submit their financial statements, to the Registry of Commercial Concerns for their deposit, together with the auditor's opinion, and duly signed by the legal representative, the accountant and the External Auditor.

Accepted variations between financial and fiscal statements

No variations are accepted since there is only one basis for financial statements, which is the one established by the Supervisory Board of the Public Accounting and Audit Profession (IFRS) or IFRS for SMEs and confirmed by the Tax Code.

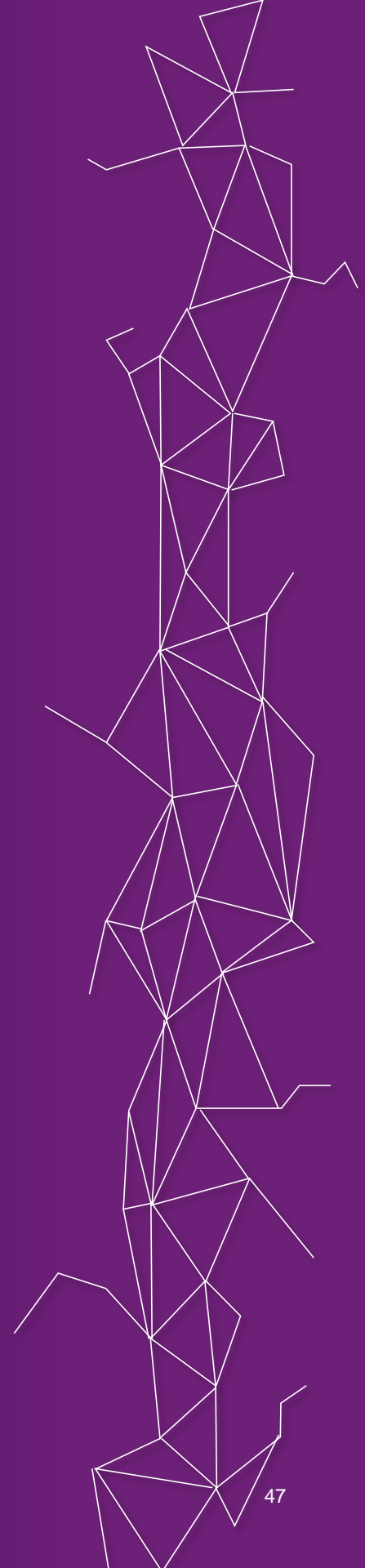
Audited financial statement requirements

The surveillance of public limited companies is entrusted to the external auditor, who must be appointed by the General Shareholders' Meeting within the first five months of each year and whose appointment must be recorded in the Registry of Commercial Concerns, within 10 business days following the date of the agreement.





Financial System



Financial System

Overview

The Financial System of El Salvador is the set of financial institutions that operate in a country with the purpose of providing services through financial instruments. Entities that comprise and regulate the financial system:

The Central Reserve Bank. The BCR aims to ensure the macroeconomic stability of the country and of the financial system. Its duties are:

- Lower inflation, promote savings, increase productivity and promote lower interest rates, encouraging investment and creating the virtuous circle.
- Promote macroeconomic stability
- Improve opportunities.
- Guarantee economic stability.

Superintendence of the Financial System is part of the Financial Supervision and Regulation System, which aims to preserve the stability of the financial system and ensure its efficiency and transparency, as well as ensure the safety and soundness of the financial system's members.

The Superintendence of the Financial System's competence is to comply with and enforce the laws, regulations, technical standards and other legal provisions applicable to the financial system, in addition to preventively monitor the risks of member institutions, promote the efficient, transparent and orderly operation of the financial system, ensure that the supervised institutions carry out its businesses, acts and operations in accordance with the provisions of current legislation, giving continuity to the efficient supervisory and regulatory work previously performed by the Superintendence of the Financial System, Superintendence of Pensions and of Securities.

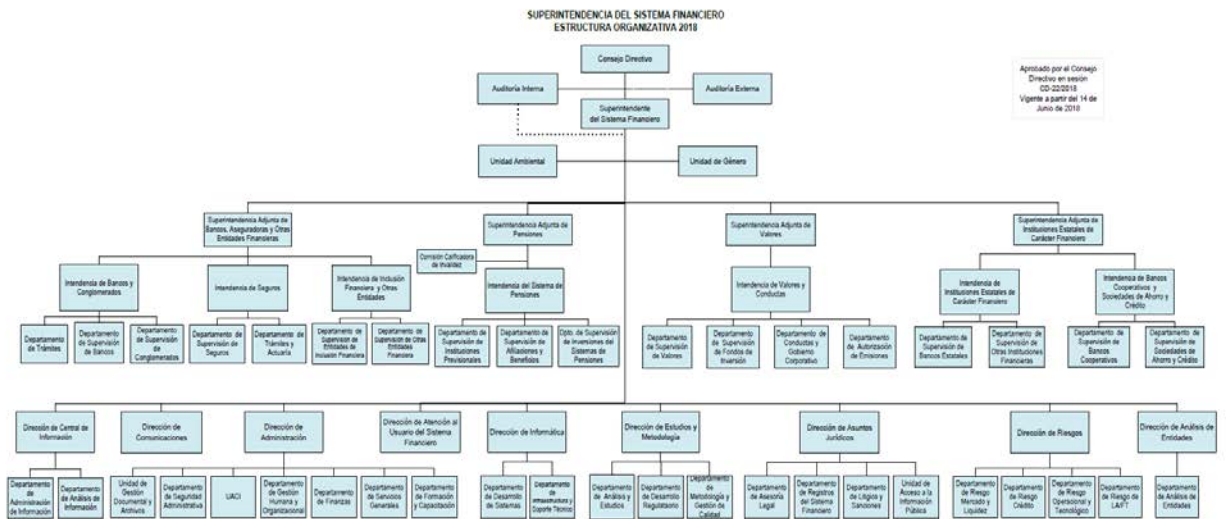
Financial System

Entities subject to the supervision of the superintendence of the financial system:

- Private banks
- State banks
- Branches of foreign banks
- Authorized Coop Banks
- Savings and Credit Societies authorized to Capture Deposits from the public
- Entities authorized to operate as Insurance and Bonding Companies
- Information Offices of Foreign Entities without Authorization to Obtain Deposits from the Public
- Cooperative Banks without Authorization to Capture Deposits from the public
- Entities of the Reciprocal Guarantee System
- Public Credit Institutions
- Entities authorized to Operate as Exchange Houses
- Companies undergoing a Dissolution and Liquidation Process
- Entities authorized to Operate in the Stock Market
- Authorized entities of the Pension System
- Information Agencies on People's Credit History
- Remitting Agents
- Payment Systems Administration Societies
- Remitting agents with subagents
- Electronic Money providing companies
- State Financial Institutions

Financial System

Structure and supervision of the banking and securities system



Source: Superintendencia of the Financial System, Structure of the Financial System, taken from <https://ssf.gov.sv/estructura-organizativa/>

Financial System

Requirements for the operation of financial and banking entities

The most outstanding requirements related to financial institutions are described below:

Banks and conglomerates:

- Authorization for their constitution
- Authorization for new entities to start operations
- Authorization to withdraw share capital from entities that are in the process of initiating operations.
- Authorization to transfer extraordinary assets to fixed assets
- Extraordinary asset donation authorization
- Authorization to administer trusts
- Closure of agencies and establishments

Savings and credit societies

- Authorization to establish a SAC
- Authorization for new entities to start operations
- Authorization to withdraw capital from entities that are in the process of initiating operations.
- Authorization to a savings and credit company to capture deposits from the public
- Authorization of the main banking computer system (core banking) and changes to accounting systems.

- Authorization to transfer extraordinary assets to fixed assets

Currency management conditions

The Bank Law establishes in Article 51 that banks are authorized to operate in the foreign exchange market.

Financial System

Credit Availability

The main institutions authorized to award credits are the following:

- Banco Agrícola, S.A.
- Banco Cuscatlán de El Salvador, S.A.
- Banco Davivienda Salvadoreño, S.A.
- Banco G&T Continental El Salvador, S.A.
- Banco Promérica, S.A.
- Scotiabank El Salvador, S.A.
- Banco de América Central, S.A.
- Banco Azul El Salvador, S.A.

Second tier banks

- Banco de Desarrollo de El Salvador

Other financial institutions

- Federación de Cajas de Crédito y Banco de los Trabajadores (FEDECREDITO)
- Multi Inversiones Banco Cooperativo de los trabajadores, Sociedad Cooperativa de R.L. de C.V.
- ACCOVI de R.L.
- BANCOVI de R.L.

By 2018, the loan portfolio increased its growth rate, showing an annual variation of 6.1% in 2018, greater than the one shown in 2017 (4.8%). The loan portfolio reflects growth, which is mostly explained by the increase in

the portfolio of resident companies. The consumption, commerce and construction sectors were the fastest growing in the last year.

Incentives available for Banking

Investment Funds Law: Regulates and establishes the framework for the supervision of Investment Funds, their participation quotas, the companies that manage them, and their operations; as well as other participants.

Open and closed investment funds benefit from ISR and VAT exemption and from any other type of taxes, fees and special tax contributions, except from Real Estate Transfer tax, related to closed investment funds, exemption from all assignment fees, endorsements, registrations and corresponding marginalization made to form an investment fund.





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