



TAXES IN AMERICA

2024

6th EDITION

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El Salvador



Capital city:
San Salvador



Area:
20,742 km²



Population:
6,380,896



Language:
-



Political system:
-



**GDP/capita
2021:**
USD 9,999



Currency:
US Dollar (USD)



ISO Code:
SLV



Telephone code:
+ 503



National day:
15 september



Economic overview

According to the World Bank, El Salvador continues to register low levels of economic growth and poverty reduction in the country has been moderate. However, inequality has decreased over the last two decades and El Salvador is today one of the most equitable countries in Latin America.

The smallest country in Central America, El Salvador ranks third in population (6.5 million) among the 6 Central American countries. It is the most densely populated country in Central America and ranks in the 83rd percentile worldwide in terms of population density.

El Salvador has experienced modest economic growth in recent decades, with annual GDP growth exceeding 3% only twice between 2000 and 2020. Even so, it has achieved a significant decline in poverty and inequality.

The poverty rate (based on a poverty line of USD 5.5 per person per day) fell from 39% in 2007 to 22.3% in 2019. Extreme poverty, measured at USD 1.9 per day, fell from 13% in 1995 to 1.5% in 2019. Poverty reduction has been driven mainly by labour income and workers moving from low-paying jobs in agriculture to higher-paying jobs. In rural areas, remittances have also had a positive impact, but smaller compared to labour income.

Driven by pro-poor growth and more shared prosperity, El Salvador became the most equal country in Latin America and the Caribbean (LAC). The Gini index fell from 0.54 in 1998 to 0.38 in 2019, the lowest in the region. In urban areas, the reduction in inequality was driven by labour income, while in rural areas it was driven by income mainly from pensions and remittances.

However, the COVID19 pandemic has had a significant negative impact on people's lives and household incomes. Although El Salvador was the fastest Central American country to adopt strong containment measures against the outbreak and the government implemented a strong fiscal response to limit the impact on households and businesses, the pandemic could bring poverty back to levels not seen since 2016, reversing years of progress.

Due to the pandemic, the poverty rate is expected to increase to 5.9 per cent. El Salvador has one of the highest proportions of vulnerable population in the region (48%), and a further decline in economic activity may result in a significantly higher proportion of people at risk of falling into poverty. The crisis also affected growth and GDP contracted significantly by 7.9% in 2020.

In 2021, growth shows signs of recovery, supported by remittance-driven consumption and exports. El Salvador's economy is expected to grow 8% in 2021

and

4% in 2022. Vaccination against COVID19 has been successful, reaching a vaccination rate of close to 60 per cent by the end of September 2021, among the highest in the region.

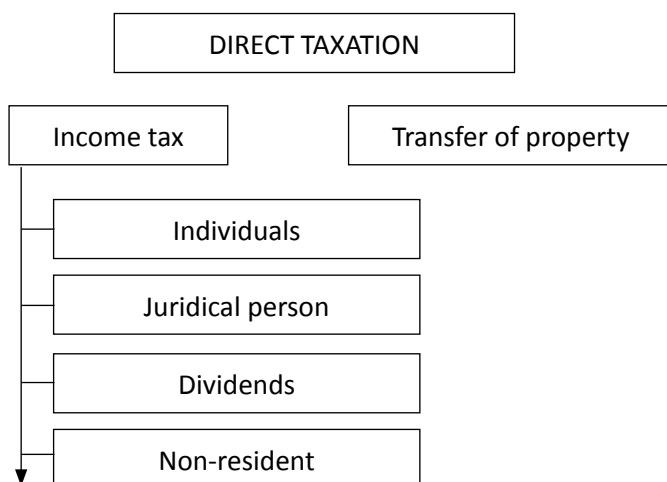
Challenges remain, such as the need to push for fiscal sustainability reforms. In 2020, the fiscal deficit was 9.2% of GDP and debt was 91.8% of GDP. Higher tax revenues from the rebounding economy and the phasing out of one-off expenditures will help moderate the deficit to 4% of GDP and debt to 86.1% of GDP until 2022, but the debt management challenge remains beyond 2023.

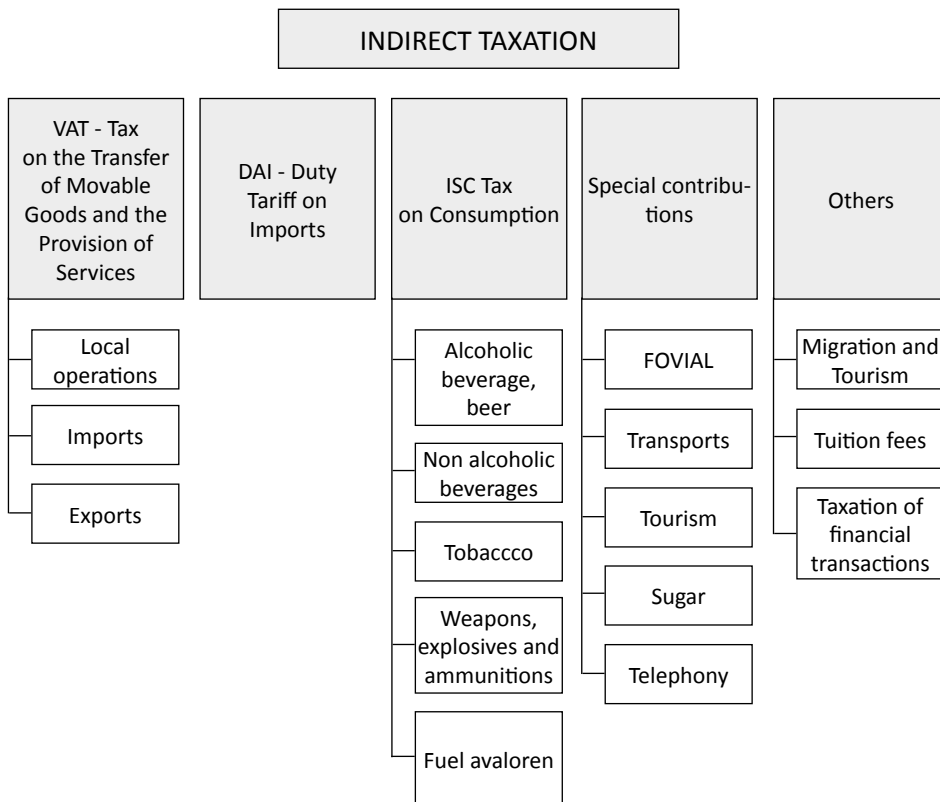
Crime and violence have also been a threat to social development and economic growth in El Salvador and are among the main reasons for many Salvadorans to migrate. However, homicide rates have dropped dramatically since August 2019, bringing the country's violence indicators towards the regional average.

The country also has high exposure to the risk of adverse natural events, including earthquakes and volcanic eruptions, and is highly vulnerable to the impacts of climate change, including increased floods, droughts and tropical storms, which disproportionately affect poor and vulnerable populations.

Despite these challenges, El Salvador has great potential to boost its economic growth. The country's strategic location, with access to many markets, a growing labour force and a strong industrial base, could help expand trade for stronger and more inclusive growth. Development goals could be achieved with a long-term commitment to structural reforms, the creation of quality jobs and investment in human capital.

Structure of El Salvador's tax system





The Salvadorian tax system is based on direct and indirect taxes, although the greatest contribution comes from the side of indirect taxes, especially the Value Added Tax (VAT).

The reality is that very few taxes are paid and taxpayers with high incomes and fortunes are those who, in relative terms, pay less since in relation to income there are no differentiated rates.

The tax system has been remarkably simplified, and there are currently three basic taxes: Income Tax, Value Added Tax and import tariffs. Specifically, there is no estate tax after the repeal of the Wealth Tax Act in 1994. It should be noted that in terms of tax incentives for investments, there is a great diversification of benefits, which are regulated by specific laws that apply to them, which we will detail at the end.

The different governments have made fiscal reforms aimed at increasing efficiency and the tax base. There have been no changes affecting the structure of the system, but if a Fiscal Reform was adopted in 2004 aimed at improving fiscal control and the fight against fraud, a Tax Code was introduced harmonizing the different amparo proceedings and general regulations applicable to all taxes. It

is worth noting that this Code lead to the Tax Audit which is applied to taxpayers in a period that has achieved income over USD 571,428.57 or have assets greater than USD 1,142,857, transferring the supervisory power not binding to professionals in Public Accounting registered before the Supervisory Board of the Public Accounting and Auditing Profession.

The amendment to Art. 131 Lot, b) of the Tax Code approved by D.L. No. 297 dated 10 April 2019, which will be published in the Official Gazette No. 86, Volume No. 423 dated 14 May 2019. This amendment raises the income parameter for being obliged to appoint a tax auditor from USD 571,428.57 to 4817 monthly minimum wages (equivalent to USD 1,734,120).

USD 1,734,120.00). For the calculation of the minimum monthly salary, the provisions of Art. 228 Inc. 2 of the Code have been considered, which takes the salary per ordinary daily working day of the commerce and services sector for 30 days, which results in USD 360.00 (USD 12 daily working day for 30 days).

1. Income tax

1.1 Applicable subjects

It is regulated in the Income Tax Act, applicable to both individuals and legal entities, trusts, successions, artists, athletes or similar, either domiciled or not in the country, whether they are filed separately as individuals or grouped together.

1.2 Generating Facts

They include taxes derived from the income obtained in national territory from products or profits received or accrued by taxpayers, either in cash or in kind, from any kind of source, either from work, business activity, capital or any kind of products, profits, gains, benefits or profits, whatever their origin.

1.3 Non-taxable income

The following are incomes not taxable by this tax, and consequently are excluded from the resulting computation of income:

- Those that by Legislative Decree or those coming from contracts approved by the Legislative Organ by decree are declared not taxable.
- Remuneration, compensation and expenses of representation received in the performance of their duties by diplomats, consular agents and other official representatives of foreign countries that, with due authorization, re-

side in the Republic, temporarily or permanently, all on condition of reciprocity. Notwithstanding the provisions of the preceding paragraph, the income received by taxpayers, as payments for services rendered in El Salvador to a foreign government or international organization, are subject to the tax established in this law, except for those incomes that, for express mention in agreements signed and ratified by the government of El Salvador, qualify as non-taxable or exempt income.

- Indemnities that are received in the form of capital or income due to death, disability, accident or illness, and that are granted by judicial means or by private agreement. Compensation for dismissal and bonuses for voluntary retirement, provided that they do not exceed a basic salary of thirty days for each year of service. For these purposes, no salary may be higher than the average salary of the earned over the last twelve months, as long as these salaries have been subject to withholding. Retirements, pensions or pawns, both civil and those corresponding to members of the Armed Force Taxable income is the ordinary remuneration that continues to be received during sick leave or absence.
- Remuneration, compensation and representation expenses received in the performance of their duties by Salvadorian individuals in the foreign service as officials or employees of the Government of the Republic.
- Interest, prizes and other utilities that come directly from deposits in financial institutions supervised by the superintendence of the financial system, associations and savings and credit cooperative societies, as well as in their respective federations, provided that the taxpayer benefited with these incomes, it is a natural person domiciled holder of the deposits and the average monthly balance of the deposits is less than USD 25,000.00 of the United States of America.
- The value of the lease that would produce the house of the taxpayer, the fifth or recreational or leisure house, property of the taxpayer, which he inhabits. In general, for this purpose, no taxpayer may deduct more than one room or recreation house.
- The amounts that by any concept and by reason of insurance contracts, the taxpayer receives as insured or beneficiary, in the case of endowment insurance or other type of insurance, when the risk covered is not raised and the stipulated term is lower or equal to five years, the value received will constitute taxable income, the same treatment of taxable income stipulated in the previous paragraph will apply when the contracts have been agreed for a period of more than five years and for any reason are left without effect before after the five-year term has elapsed without the risk having occurred,

in the cases established in the two preceding paragraphs, the corresponding withholdings must be made in a percentage of 10% of the amounts credited or paid and be informed within the respective legal term.

- The Awards granted by the Legislative Assembly for relevant services rendered to the Homeland.
- The prizes awarded to public workers for relevant services rendered to Homeland in the performance of their duties.
- Interest from loans granted abroad by:
 - International organizations; development agencies or institutions of foreign governments; foreign governments; and corporations or foundations of public utility domiciled abroad duly legalized by competent authorities of their country of origin whose non-profit nature is verified in their constitutive act and qualified by the central reserve bank.
 - Investment funds, private fund managers, specialized public or private funds, domiciled abroad, duly legalized by competent authorities in their country of origin and qualified by the central reserve bank, destined to cooperative savings and credit associations , corporations and foundations of public law and public utility, that are dedicated to the granting of financing to the micro and small business, the general direction of internal taxes and the central reserve bank, together, will elaborate the necessary instrument, which will include the procedure and requirements that guarantee compliance with the purpose of the exemption regulated in this section.
- The product, profit, benefit or utility obtained by a natural person in the sale of his first home and the transaction value does not exceed 723 minimum wages, as long as it is not usually dedicated to the sale or exchange of estate.
- Prizes granted by the tax administration in running the fiscal lottery referred to in article 118 of the tax code, consequently, such prizes will not be subject to withholding of the aforementioned tax. The indemnities, the interest on bank deposits (only for individuals), the amounts paid for insurance contracts and the profits received by the partners on which the company has paid the corresponding tax. Fixed deposits or government loans, bonds, or securities, or prizes won in the National Lottery, and funds received as compensation for industrial accidents, or termination of employment, are exempt from income tax.

1.4 Imposition period

The taxable period is established from January 1 to December 31.

1.5 Tax tables

Non-domiciled individuals, estates or trusts shall calculate their tax by applying 30% on their net or taxable income. Income that has been subject to definitive income tax withholding in the legally established percentages is excluded from the tax calculation.

Table for calculating tax on individuals

Income Tax for individuals, estates and domiciled trusts shall be calculated in accordance with the table below, for the cases specially provided for in this law, as follows:

	SINCE	UNTIL	RATE (%)	OF THE EX-CESS OF	PLUS FIXED FEE OF
I SECTION	USD 0.01	USD 4,064		EXEMPT	
II SECTION	USD 4,064.01	USD 9,142.86	10	USD 4,064.00	USD 212.12
III SECTION	USD 9,142.87	USD 22,857.14	20	USD 9,142.86	USD 720.00
IV SECTION	USD 22,857.15	ONWARDS	30	USD 22,857.14	USD 3,462.86

1.6 Employees

Individuals domiciled whose rent as comes exclusively from wages, salaries and other remuneration and who have been subject to withholding for the payment of this tax, are not required to file the tax return; except for persons with incomes greater than USD 60,000.00 per year, as well as those who have not been withheld or whose withholdings made do not correspond to the tax that would result from applying what is established in the table referred to in article 37 of this law, in which case, they must present the corresponding declaration paying the tax or may request the respective return.

Consequently, those who are not obligated to file declaration, their tax will be equal to the sum of the withholdings made according to the provisions in relation to the retention tables.

1.7 Sets

The cultural, sporting, artistic and similar groups, not domiciled, will calculate the tax applying a 5% on the gross income obtained in each event.

1.8 Legal person

Legal entities, unions of persons, irregular or de facto companies, domiciled or not, will calculate their tax applying to their taxable income the rate of 30%; except taxpayers who have obtained taxable incomes less than or equal to USD 150,000, which will apply the rate of 25%. Excluded from the calculation of tax, those incomes that would have been subject to definitive withholding of income tax in the established legal percentages. Profits of domiciled individuals referred to in this article will be taxed with a complementary tax when they are distributed in accordance with the provisions of this law.

1.9 Capital Gain

Income tax payable for the net capital gain of one or more transactions determined in accordance with article 14 of this law, shall be equivalent to 10% of said profits, except when made within the twelve months following the date of acquisition, in which case the net capital gain must be added to the ordinary net taxable income and the tax calculated as ordinary income, attached to the income tax statement of the respective tax year, the calculation form of the capital gain.

1.10 Deductions

Costs and expenses necessary for the production of the income and for the conservation of its source, in no case the costs and expenses incurred in relation to activities that generate income not taxed or that do not constitute income, will be deductible from the taxed income.

Costs and expenses affecting the income generating activity, as well as those that affect the untaxed income, and those that do not constitute conformity income must be provided, based on a factor that will be determined by dividing the taxable income among the sum of the taxable income, not taxed, or not constituting income according to the law, only the proportion corresponding to the taxed should be deducted.

1.11 Current state of international taxation in El Salvador

As explained above, in income taxation - and in direct taxation in general - El Salvador applies the source principle. However, in order to capture some income generated abroad by individuals domiciled in El Salvador, the income tax law has been amended to include the following as taxable income:

- a) Those derived from securities and other financial instruments abroad (Art. 14A, paragraph 6°, LISR);

- b) Non-taxable, exempt or non-taxable income obtained in another country, state or territory, from credits or financing granted to foreign entities (Art. 16, last paragraph, LISR).

In the case of § a), the 2009 reform of the LISR allows, since 2010, the deduction of the tax paid abroad (tax credit) and, if the tax paid abroad is lower than the rate in force in El Salvador, the difference is paid. The applicable nominal rate is as follows for capital income: 10%.

Strictly speaking, despite the above-mentioned cases, it cannot be categorically stated that El Salvador has a worldwide income system, as it has to tax all types of income obtained by its residents all over the world. Obviously by applying the provisions related to residence and permanent establishments.

El Salvador, following its jurisdictional principle, taxes income obtained in the national territory.

In principle, according to Art. 158 of the Tax Code, income obtained by non-residents is subject to a withholding tax regime. The rates are differentiated, depending on the economic activity carried out (Table 1).

The withholding tax withheld from non-residents is dischargeable, i.e. it is considered a final payment, so that taxpayers are not obliged to submit the annual tax assessment. However, in cases where the withholding has not been made, either due to non-compliance by the agent or because there is no obligation to withhold, the beneficiaries of the income must file the income tax return within the corresponding deadlines and in accordance with the provisions applicable to domiciled taxpayers.

ACTIVITY	Rate (%)
Yields on securities traded on the Salvadoran stock market.	3
International transport	5
Insurance, reinsurance, bonds, brokers and the like	5
Transfer of intangible goods, use or concession of use of intangible goods related to: cinema, television, cable, satellite, radio, videos and the like.	5
Payments to foreign financial institutions, for financing to subjects domiciled in the country.	10
Payments to related entities, subsidiaries, branches, parent companies, except for payments for the acquisition of tangible personal property or profits already taxed	20
General rate for other income or payments	20
Payments to entities incorporated, domiciled or resident in territories with preferential tax regimes, low or zero taxation regimes or tax havens.	25

With regard to tax havens, the 25% withholding tax does not apply in four specific cases:

- a) Payments for acquisition or transfer of tangible goods.
- b) Payments to individuals domiciled in Central American countries that have signed and ratified the Agreement on Mutual Assistance and Technical Cooperation between the Central American Tax and Customs Administrations.
- c) Payments to individuals domiciled in countries that have signed and ratified and effectively comply with information exchange agreements or agreements to avoid double taxation of income tax with El Salvador.
- d) Payments to taxpayers for income benefiting from the reduced withholding rates detailed in Table 1.

The 25% rate applicable to income paid to entities in tax havens is a measure aimed at mitigating capital flows to these jurisdictions and preventing tax avoidance or evasion. Likewise, the use of legal instruments, such as those detailed in b) and c) above, is intended to provide the tax administration with efficient tools to locate and follow up on transactions that may be carried out by national taxpayers or residents of the country with others in such jurisdictions, so as to counteract fraudulent practices.

El Salvador has only one treaty to avoid double taxation: the "Agreement between the Republic of El Salvador and the Kingdom of Spain for the avoidance of double taxation and the prevention of fiscal evasion in the area of income and wealth taxation".

The agreement was signed in July 2008 and ratified in September 2008. The treaty defines and assigns jurisdiction for the taxation of the tax base of each tax covered (income tax and wealth tax), depending on the nature of each concept. In particular, jurisdiction is assigned to real estate income, business profits, maritime and air transport, associated companies, capital income, labour income, student and teacher income. The convention establishes ways of eliminating double taxation, procedures for resolving disputes and institutes exchange of information and mutual assistance.

2. Law on the Tax on the Transfer of Movable Goods and the Rendering of Services

2.1 Applicable Subjects

Natural or legal persons, inheritances, trusts and cooperative associations shall be taxpayers or debtors of the tax, either as taxpayers or liable parties.

2.2 Generative event

This law establishes a tax that shall be applied to the transfer, importation, internment, exportation and consumption of tangible personal property; provision, importation, internment, exportation and self-consumption of services, in accordance with the rules set forth herein.

2.3 Transfer concept

For the purposes of this law, transfer of ownership of tangible personal property, not only that resulting from the contract of sale by which the seller is required to transfer ownership of a good and the buyer to pay its price, but also those that result from all acts, conventions or contracts in general that have the purpose, transfer or alienate for consideration the total or a quota of the domain of those goods, whatever the qualification or denomination assigned by the parties or interested parties, the conditions agreed upon by them or carried out in their own name or on behalf of a third party.

2.4 Enunciation of acts and facts included in the concept of transfer

In the concept of transfer of ownership, as a tax-generating event are understood, among others, the following acts, conventions or contracts that refer to tangible personal property from:

- transfers made in public auction, adjudications in payment or auction of tangible personal property belonging to taxpayers;
- swaps;
- donations as payment;
- assignment of titles of ownership of tangible personal property;
- mutual loans or consumer loans in which one party delivers to the other, fungible items charged to restore many others of the same gender and quality;
- contributions of tangible personal property of the transfer to companies or other legal persons, null, irregular or de facto companies and, in gene-

- ral, to entities or collectivities without legal personality;
- transfers of tangible personal property belonging to the line of business on the occasion of the modification, extension, transformation, merger or other forms of reorganization of companies;
- awards and transfers of chattels, made as a result of dissolutions and liquidations or capital reductions of companies or other legal persons, null, irregular or de facto companies and collective entities with or without legal personality. In the cases indicated in this section, transfer of tangible personal property shall not be subject to tax when the successful bidder is the same partner or shareholder who contributed it, and said asset was not taxed with the tax that this law deals with;
- transfers of commercial establishments or companies, with respect only to tangible personal property of the assets included in the operation;
- constitution or onerous transfer of the right of usufruct, use or of the right to exploit or appropriate products or chattels in advance, extracted from quarries, mines, lakes, forests, plantations, seedbeds and the like;
- promise of sale followed by the transfer of possession; and
- in general, any form of onerous delivery of goods that gives the recipient the free power to dispose of them economically, as if they were owners.
- transfers of tangible personal property made by taxpayers, whose assets have been acquired by them in payment of debts.

2.5 Moment when the tax is caused

In the transfer of ownership as a generating event, the tax is deemed to have been caused when the document certifying the transaction is issued.

If the price is paid or the goods are real or symbolically delivered before the issuance of the respective documents, or if due to the nature of the act or for any other reason, said issue does not correspond, the transfer of ownership and the

tax shall be caused when such events take place.

In deliveries of consigned goods, the tax will be caused when the consignee performs any of the events indicated in the preceding paragraph.

The tax is caused even when there is omission or delay in the payment of the price or that it has not been definitively fixed by the parties.

2.6 Provision of services - Generator fact

Taxable income is the provision of services from acts, conventions or contracts in which one party is required to provide them and the other is required to pay as consideration a rent, fee, commission, interest, premium, royalty, as well as

any other form of remuneration. It is also the use of the services produced by the taxpayer, intended for the use or consumption of the partners, managers, attorneys or personnel of the company, the family group of any of them or third parties.

Payments for compensation for damages or losses are not included in the previous concept. Donations of free and irrevocable services produced by the taxpayer do not constitute a generating event.

2.7 Service concept

For the purposes of tax, all those onerous operations, which do not consist of the transfer of ownership of tangible personal property, include the following:

- benefits of all kinds of services are permanent, regular, continuous or periodic;
- technical advice and preparation of plans and projects;
- leases of tangible personal property with or without promise of sale or purchase option, subleases, concession or any other form of assignment of the use or enjoyment of tangible personal property;
- lease, sublease of real estate intended for commercial, industrial, service or any other activity, with or without promise of sale or purchase option, usufruct, concession or any other form of assignment of the use or enjoyment of all types of real estate, establishments and mercantile companies;
- leasing of services in general;
- to make or execute by himself or under his direction a movable material work, with raw materials contributed by the person in charge of the work;
- execution of engineering works or similar, in which materials or means supplied by the person in charge of the work are used;
- installation, preparation of works, specialties or earthworks agreed by administration or mandate, by a fixed or unitary price or in another form;
- repairs, transformations, expansions that do not involve the making or construction of a new building site, and maintenance, repair and conservation of chattels and real estate;
- general building contracts or construction of new buildings by administration or mandate, in which the executor or builder contributes only his personal work and the one in charge of the work or construction supplies the materials;
- building or construction of new properties, agreed upon at a fixed price, in which the main materials are supplied in full or in the majority by the contractor;
- commission, mandate, consignment, sales at auction or held with auction institutions, fairs or bags;

- transportation or cargo freight, land, air and maritime and passenger, air and maritime; and
- those rendered in the liberal exercise of university professions and public accounting or independent non-subordinate services, provided by those who personally practice professions or trades requiring or not a title or license for its exercise, whether natural or legal persons constituted by those. For the purposes of this law, the profession of the notary is considered a liberal profession.
- the lease, sublease, concession or any other form of assignment of the use or enjoyment of trademarks, invention patents, industrial procedures or formulas and other similar services.
- payment of allowances or any other emolument of equal or similar nature. Diets for services governed by labor legislation and those provided by employees and public, municipal and autonomous institutions officials are not included.
- payment of memberships, fees, or any other form of payment of a similar nature that generates a consideration for the use, enjoyment or satisfaction of goods or services, regardless of the manner in which they are received.

Reimbursements or refund of expenses are treated as service benefits, which will be taxed with the present tax at the time of payment. Reimbursements or refund of expenses for insurance, food and travel expenses that workers receive, as well as those reimbursements or refunds, provided that the agent has not deducted tax credits in relation to such sums, are not included in this provision.

2.8 Imposition period

For the purposes of this law, the tax period will be one calendar month is to observe that this period includes filing and payment.

2.9 Territorial situation of the goods

Transfer of ownership will constitute a generating fact of this tax, when the respective tangible personal property located, registered or registered in the country, although they may be placed temporarily in it or abroad and even when the appropriate acts, conventions or contracts have been held abroad.

2.10 Imports and exports

Tax on imports and hospitalizations will be liquidated by the General Directorate of Customs Income in the same act in which customs duties are determined. Proof of payment of this tax will be the proof of the tax credit. Exports will be subject to a 0% rate.

2.11 Applicable rate

The tax rate is the 13% applicable on the tax base.

2.12 Calculation Process

The process of its development is based on the generation of fiscal debit at the moment of making a transfer of goods and services serving as a tax credit, for the taxpayer acquiring goods or services or when performing the export activity. Payment of the tax is developed by the difference between the fiscal debits acquired through sales at the time of the transfer of goods and services and those paid (tax credits) when purchases or expenditures of goods and services or import processes are made in the same tax period.

If the arithmetical difference in the tax credit exceeds the fiscal debit of that period, the remainder may be deducted in the following tax periods, until its total extinction.

2.13 Perceptions and Withholdings

It has been ruled that there is a withholding and collection, for large taxpayers who will retain 1% in advance of VAT for the price of goods and services, which they acquire from small and medium taxpayers (retention) and those that large taxpayers sell to small and medium taxpayers (perception), the figure of the agent of perception and retention that are classified as large taxpayers, as well as for those taxpayers transferring goods or providing services and receiving payments by means of credit or debit cards.

2.14 V.A.T. for non-domiciled

Payment of V.A.T. for services rendered by non-domiciled persons, the person hiring the service through withholding said tax is liable.

2.15 Excluded subjects

They will be excluded from the quality of taxpayers, who have made transfers of tangible personal property or services, taxed and exempt, in the previous 12 months for an amount less than USD 5,714 28/100 and active is less than USD 2,285 71/100.

3. Import taxes

The Central American Uniform Customs Code (CAUCA) and the National Regulation of the Central American Uniform Customs Code (RENCAUCA) establish the basic customs legislation of mandatory application in the signatory countries for the organization of customs activities and the regulation of administration, in accordance with the requirements of the Common Market and of the Agreement on the Central American Tariff and Customs Regime.

Imports Tax is calculated in accordance with the Central American Tariff System common in all the countries of the region. Currently, there is a gradual decrease in taxes and fees to make the region more competitive in international markets.

4. Other taxes

In addition to the three main sources of income of the State, there are other taxes generating 2% of income in El Salvador. For example, the Real Estate Tax rates the transfer of real estate when its value exceeds ₡250,000.00 (USD 28,571.43), with a fixed rate of 3%. As this tax is subject to the value of the property that the Tax Administration determines as the real value of the property, its application is subject to technical evaluation criteria.

Finally, El Salvador has specific taxes corresponding to Alcoholic Beverages, Cigarettes and Soft Drinks.

5. Fiscal incentives

Incentives for foreign investment are regulated by the Investment Acts, Industrial and Commercial Free Zones and Export Reactivation.

These three laws seek to promote foreign investment by improving the country's competitiveness in all areas of action.

The Investment Act grants equal conditions to domestic and foreign companies. The aim is to avoid discriminatory and/or unjustified measures that go against the normal activities of a foreign investment.

The Free Industrial and Commercial Zones Act grants the following incentives to companies Exemption from Income Tax exemption from Value Added Tax and exemption from municipal tax exemption from transfers of real estate when the

property will be used for commercial purposes exemption from taxes on imports of machinery, raw materials, equipment and intermediate goods used for production. The option to sell part or all of the production in the local or Central American market.

Any foreign company can establish and operate from a Free Trade Zone or Tax Area if it is involved in the production, assembly, manufacturing, processing, transformation or commercialization of goods and services; in addition to the offer of services related to international or regional trade, such as the collection, packing and re-packing, consolidation of cargo, distribution of the merchandise and other activities connected with them or complementary to them.

The Reactivation of Exports Act grants the following incentives: Reimbursement of 6% of the FOB value of exports destined outside the region does not levy taxes on exports.

Exemption of customs taxes for the importation of raw material and intermediate goods for partial or temporary operations abroad.

Companies engaged in the assembly or manufacture abroad and exporting, marketing and manufacturing goods and services for part or temporary, enjoy exemption from property taxes, for the same amount as the value of exports.

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