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International Tax
El Salvador Highlights 2017

Investment basics:

Currency – US Dollar (USD)

Foreign exchange control – No

Accounting principles/financial statements – IFRS must be used. Financial statements must be filed annually.

Principal business entities – These are the stock corporation, limited liability company and branch of a foreign entity.

Corporate taxation:

Residence – A corporation is resident in El Salvador if it is incorporated in the country.

Basis – El Salvador operates a territorial tax system, under which income tax is levied only on Salvadoran-source income.

Taxable income – Corporate income tax is levied on Salvadoran-source profits derived by companies from their profit-making activities. Taxable income is determined by deducting from gross income all necessary costs and expenses, and other specific deductions established by the law. Certain income is exempt.

Taxation of dividends – Dividends are included in taxable income.

Capital gains – Capital gains are taxed at a rate of 10%.

Losses – Ordinary losses may not be carried forward or back. Capital losses may be carried forward for five years to offset capital gains.

Rate – 30%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – Incentives and exemptions are available under the International Services Law and for companies operating in free trade zones.

Withholding tax:

Dividends – Dividends paid to a nonresident company are subject to a 5% withholding tax, in addition to the tax applicable to the distributed profits at the corporate level. The rate may increase to 25% if the recipient is located in a tax haven or a jurisdiction with a preferential tax regime (i.e. a low or no-tax regime). The El Salvador tax authority periodically issues a guide on determining if a territory/country has a preferential tax regime.

Interest – A 10% income tax withholding applies to interest received by individuals and companies on bank deposits. Interest paid between resident companies is not subject to withholding tax. Interest paid to a nonresident is subject to a 20% withholding tax. The rate may be increased to 25% if the recipient is located in a tax haven or benefits from a preferential tax regime. Withholding tax at a reduced rate of 10% applies if the recipient of the interest is a financial institution supervised in its country of origin and registered with the Central Reserve Bank of El Salvador.

Royalties – Royalties paid to a nonresident are subject to a 20% withholding tax. The rate may be increased to 25% if the recipient is located in a tax haven or benefits from a preferential tax regime. A 5% rate is applicable for payments to nonresidents for transfers of intangible assets or for the use of, or the right to use, rights over tangible and intangible assets related to cinematographic movies, video tapes, phonographic discs, radio serials, television serials, serials and strips reproduced by any means, video and track records and television programs transmitted by cable, satellite or other similar media.

Technical service fees – Technical service fees paid to a nonresident are subject to a 20% withholding tax. The rate may be increased to 25% if the recipient is located in a tax haven or benefits from a preferential tax regime.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – No

Social security – The employer must contribute to social security at a rate of 7.5% of the total monthly remuneration. The employer also contributes to the private pension funds of its employees at a rate of 6.75% on the employee's monthly compensation.

Stamp duty – No

Transfer tax – The transfer of real estate is subject to a tax of 3% on the value of real property with respect to the amount that exceeds approximately USD 28,571.

Other – A financial transaction tax is levied on the issuance of checks and wire transfers, at a rate of 0.25% on transactions exceeding USD 1,000. There also is a withholding tax on cash deposits/withdrawals, under which banks must withhold a 0.25% tax on each deposit/withdrawal, or withhold on a monthly basis if the aggregate amount exceeds USD 5,000.

A municipal tax is levied on the assets located in each municipality, with the rate varying by jurisdiction.

As from 13 November 2015, a special contribution is levied at a 5% rate on net profits equal to or exceeding USD 500,000 derived by legal entities, entities without legal capacity and "irregular" entities, and on the acquisition or use of telecommunication services (including the transfer of data, etc.) and the transfer of equipment used for telecommunication services. Both contributions will apply for a five-year period.

Anti-avoidance rules:

Transfer pricing – The transfer pricing rules require that prices in transactions between Salvadoran taxpayers and related parties or persons resident in tax havens or jurisdictions with preferential tax regimes be equal to the market price in similar transactions with third parties. The tax authorities are entitled to adjust the price of such transactions if they are not carried out on arm's length terms.

Transfer pricing documentation is required. Taxpayers must submit, by 31 March of each year, a report listing transactions carried out with related parties or persons resident in tax havens or jurisdictions with a preferential tax regime.

Thin capitalization – Intercompany debt cannot exceed three times the accounting capital of a domestic taxpayer.

Controlled foreign companies – No

Disclosure requirements – Documentation is required for transfer pricing purposes (see above under "Transfer pricing").

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Consolidated returns are not permitted; each company must file its own return.

Filing requirements – The annual income tax return must be filed by 30 April of the year following the tax year.

Penalties – Penalties are imposed for late filing, failure to file, underreporting or tax avoidance/evasion.

Rulings – A taxpayer may request a binding ruling on the tax consequences of a transaction in which it has a direct interest.

Personal taxation:

Basis – Resident individuals are subject to income tax on their Salvadoran-source income. Nonresident individuals generally are subject to withholding tax on Salvadoran-source income.

Residence – An individual is considered resident in El Salvador if he/she remains in the country for an uninterrupted period of 200 days within a year.

Filing status – Each taxpayer is required to file a return; joint returns are not permitted.

Taxable income – Tax generally is imposed on all income arising from Salvadoran sources, including income derived from employment, capital, goods and services.

Capital gains – Capital gains are taxed at a rate of 10%.

Deductions and allowances – Resident individuals may deduct social security contributions and certain school and medical expenses. A personal allowance is granted to certain individuals.

Rates – Income tax rates are progressive ranging from 10% to 30%. Nonresident individuals are taxed via withholding at rates of 20% or 25%, or at reduced rates for Salvadoran-source income obtained for certain types of services.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Employees contribute to social security at a rate of 3% of their total monthly remuneration. They also contribute to their private pension funds at a rate of 6.25% on their monthly compensation.

Other – A financial transaction tax is levied on the issuance of checks and wire transfers at a rate of 0.25% on transactions exceeding USD 1,000. There also is a withholding tax on cash deposits/withdrawals, under which banks must withhold a 0.25% tax on each deposit/withdrawal, or withhold on a monthly basis if the aggregate amount exceeds USD 5,000.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – The tax return must be filed by 30 April of the year following the tax year. Tax on employment income is withheld at source by the employer.

Penalties – Penalties are imposed for late filing, failure to file, underreporting or tax avoidance/evasion. Penalties for noncompliance with formal requirements also are imposed.

Value added tax:

Taxable transactions – VAT applies to the transfer of movable goods, the provision of services and imports.

Rates – The standard VAT rate is 13%.

Registration – Registration for VAT purposes generally is required upon incorporation.

Filing and payment – Entities are required to file monthly returns within the first 10 days after the end of each tax period.

Source of tax law: Income Tax Law (Decree 134); VAT Law (Decree 296); Tax Code (Decree 230), and its corresponding amendments and regulations

Tax treaties: El Salvador has only one tax treaty, with Spain.

Tax authorities: Tax Administration

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