Tax Newsletter

Timely news and information on national tax issues

Updating of accounting policies due to changes in IFRSs and their implications in the accounting system

The International Accounting Standards Board (IASB) issued new accounting standards for those companies whose basis of accounting for the preparation and presentation of Financial Statements is according to the International Financial Reporting Standards (IFRSs) in their full version, whose updates will go into effect in the years 2018 and 2019, as briefly detailed below:

1. IFRS 9 – Financial Instruments, in effect since January 2018.

   Replaced IAS 39. Introduces a new approach for the classification and measurement of financial assets.

2. IFRS 15 – Revenue, in effect since January 2018.

   Replaced IAS 18 and IAS 11. Establishes a new model for recognition of revenue from contracts with customers.

3. IFRS 16 – Leases, in effect since January 2019.

   Replaced IAS 17. The differentiation between financial and operating leases is eliminated.

These changes in the accounting standards will surely have an impact on the adaptation and redefinition of the accounting policies for recognition and on the disclosures required in the Financial Statements and their Notes as of the closing for the years 2018 and 2019, respectively, especially in those operations for revenue from contracts, financial instruments and leases.

In this sense, it is important that commercial companies (legal entities) whose accounting basis for the preparation and presentation of Financial Statements is according to IFRSs in their full version, proceed to review the need to update their Accounting System, in order to comply with the "Formal Accounting" requirements that are established in the commercial and tax legislation of El Salvador.

Updating of the Accounting System due to changes in IFRSs

In each year or accounting period, commercial companies (legal entities) should verify that the accounting information related to presentation and required disclosures in the Financial Statements and their Notes are consistent with that described in the legal **Accounting System** they have.

Thus, let's recall that it is necessary to perform an update of the Authorized Accounting System when any of the following circumstances occur:

1. Changes and/or updates in the accounting policies for the recognition of operations within the framework of the requirements of each of the new provisions of the accounting standard.

2. When the addition of new accounts in the Chart of Accounts is required, as applicable.

3. When it is necessary to update the Manual of Accounts, due to the addition of new accounts, at the level of General Ledger accounts.

Who may authorize and update the accounting systems?

According to letter a) of Art. 17 of the Law Regulating the Exercise of the Public Accounting Profession, it is established that it is the responsibility of the Public Accountant, duly authorized by the Oversight Board of the Profession of Public Accounting and Auditing (CVPCPA per its Spanish acronym), to mandatorily participate in the approval of Accounting Systems, except when special laws establish that specific government institutions (regulatory entities) should authorize such accounting systems for the entities they oversee, for example: non-profit associations and foundations.

Effects of not updating the Accounting System

The Salvadorian commercial and tax legislation warns of the following effects for merchants (legal entities) that do not have their Accounting System up to date and whose Accounting System is not consistent with the information presented in their Financial Statements:

a) Commercial Effects

In recent years, reviews by the Superintendency for Commercial Obligations (body of the Ministry of Economy) are more frequent. This body is authorized to oversee compliance with commercial and accounting obligations by the companies registered in the country, per Art. 2 of the Law of the Superintendency for Commercial Obligations (SOM per its Spanish acronym).

Thus, articles 10, 11 and 12 of the Law of the SOM establish the penalties for non-compliance with the commercial and accounting obligations set forth in the Code of Commerce, which companies could be subject to in the event of a review by such institution. These penalties are classified according to the severity of the violation:

- ✓ **Minor:** written warning, for the first offense.
- ✓ **Serious:** fine of 1 to 15 of the highest urban minimum wages[1] in effect.
- ✓ **Very Serious**: fine of 15 to 50 of the highest urban minimum wages in effect.

b) Tax Effects

Art. 139 of the Tax Code establishes that taxpayers must keep formal accounting per that established in the Code of Commerce, and they are obligated to show the accounting, at the offices of the company or place they have reported as the location where they will keep the legal accounting books.

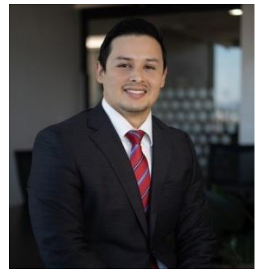
In addition, per that established in Art. 209 of the Tax Code, the legal accounting books and their corresponding documentation that support the accounting records constitute evidence for tax purposes; consequently, it is necessary to have an accounting system that is duly up to date and legalized, which is consistent with the company's books.

The penalty for non-compliance due to not having the accounting records in accordance with the commercial and tax laws is regulated in letter a) of Art. 242 of the Tax Code, which establishes as a violation the *Omission of keeping or improperly keeping the books, records, manual or computerized accounting systems, as well as Special Records and Books of Purchases and Sales for the Tax on the Transfer of Movable Goods and the Rendering of Services. Penalty: Fine of 4 monthly minimum wages.[1]"*

In this regard, it is recommended to all those corporate merchants (legal entities) whose accounting

[1] The current monthly minimum wage is US$304.17.

basis for the preparation and presentation of Financial Statements is under IFRSs in their full version and as of this date have not yet updated their Accounting System, to establish an action plan for carrying out this updating process, with the support of an Authorized Public Accountant. Thus they can mitigate the risk of the annual Financial Statements not being consistent with the information contained in the company's Accounting System, and above all, mitigate the risk of fines and penalties that could be applicable with respect to the obligation described in this article.



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Regulatory Summary

Orientation Manual: Legal Provisions Related to the Obligation to Appoint and Report the Appointment of the Tax Auditor and Resignation of the Auditor

The Tax Administration has published on its website a new Orientation Manual, which has the purpose of guiding taxpayers with respect to the obligation to appoint an Auditor for providing a tax opinion, in the event they meet any of the requirements established in article 131 of the Tax Code, and/or article 47 of the International Services Law, presenting and answering the most frequently asked questions that arise when appointing a Tax Auditor for providing an opinion during a specific period, and at the same time showing examples of that established both in the Tax Code and in the International Services Law, with respect to such obligation.

In addition, this manual presents the terms that must be kept in mind in the event the obligation to appoint an Auditor and present an Appointment of Auditor Report to the Tax Administration arises, as well as the special cases for mergers, transformations and liquidation of companies.

To access this orientation manual, click on the following link:

http://www7.mh.gob.sv/downloads/pdf/700-DGII-MN-2019-21012.pdf

Tax Calendar
February 2019

The updated 2019 tax calendar is now available on the Tax Administration's website 2019, which includes the public holidays and the deadlines for all tax obligations.

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28		

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VAT:

Declaration and payment of the Tax on the Transfer of Movable Goods and the Rendering of Services (F-07).

FINANCIAL INCOME AND TRANSACTIONS:

Monthly declaration of Payment on Account, Tax Withheld on Income from Financial Transactions, and the Special Contribution for Citizen Security and Coexistence (F-14)

SPECIFIC AND AD VALOREM TAXES:

Declaration and payment of Specific Taxes, Ad Valorem Taxes and Special Contribution (F-06).

OTHER OBLIGATIONS:

- Report on Donations (F-960).
- Report on Specific and Ad Valorem Taxes on Producers and Importers of Alcoholic Beverages, Potable Ethyl Alcohol and Beer, Carbonated Beverages, Isotonic Beverages, Fortified Beverages or Energy Drinks, Juices, Nectars, Soft Drinks and Concentrated or Powder Mixtures for the Preparation of Drinks (F-955).
- Report on Specific and Ad Valorem Taxes on Producers and Importers of Firearms, Ammunitions, Explosives and Similar Items, Producers of Tobacco and Producers, Importers and those that clear fuels through customs (F-988)
- Monthly Report of Sales to Producers, Distributors or Retailers of Tobacco and Tobacco Products (F-956).

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VAT:

Monthly Report on Withholdings, Collections, and Advances on Account of VAT (F-930).

PRINTING PRESSES:

Monthly Report on Documents Printed for Taxpayers of the VAT (F-945).

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OTHER OBLIGATIONS:

- Annual Report on Sales to Users of Ethyl, Methyl, Isopropyl and Butyl Alcohol and of Sales to Distributors or Intermediaries of Alcoholic Beverages (F-957).
- Report of Financial Institutions, Non-Banking Financial Intermediaries and any other Public or Private Entity, Report on figures reflected in the Profit and Loss Statement or in the Statement of Income, Costs, and Expenses of Loan, Credit or Financing Applicants (F-972).
- Inventory Reports (F-983).

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