



Tax Newsletter

Timely news and information on national tax issues

Central American Customs Union

Learn about the FYDUCA and its treatment in the Registry for VAT Control

The General Customs Office (*Dirección General de Aduanas - DGA*) of the Treasury (*Ministerio de Hacienda*) of El Salvador, has initiated actions for receiving the **Central American Invoice and Single Declaration (FYDUCA)** as an attached document for all those goods in-transit from or to Guatemala and Honduras, in transactions between economic actors located in both countries, which have to pass through the Salvadorian territory and enter under customs transit at the border crossings of El Salvador.

The above is in accordance with the General Administrative Provision DACG – No. 005 – 2018 of the DGA. It is a provision that is in effect but in the process of being implemented by the Tax Administration.

What is the FYDUCA?

It is the uniform legal document that constitutes the "Invoice and Declaration" for supporting the transfers (exports) and acquisitions (imports) of movable goods between Guatemala and Honduras.

The adoption of this new document (FYDUCA) is due to the incorporation of El Salvador into the Central American Customs Union through the Accession to the Enabling Protocol for the Process of Deep Integration, signed and ratified in the year 2018, in which Article 15 of the cited protocol mentions that "*The Member States commit to the creation of a Customs Union among its territories, with the purpose of allowing the free movement of goods regardless of their origin, upon previous*

nationalization of the products in one of the Member States.”

Based on the above, integrated border crossings have been established, which will operate through a single intervention by the officials of each Member State. The objective is greater simplification of customs formalities, saving of time in logistical aspects and reduction in operating costs. In addition, it will facilitate the integration of production chains and co-production processes, among other benefits.

This model will operate at six customs offices selected for servicing the customs union of the Northern Triangle; two at the border with Honduras, which are El Amatillo and El Poy, and four at the border with Guatemala, which are La Hachadura, Anguiatú, Las Chinamas and San Cristóbal.

The joint work of the Customs Offices and the General Office of Internal Revenue of the Treasury have allowed for testing the implementation during the months of April and May 2019 through the participation of some selected companies that moved goods from El Salvador to Honduras under the FYDUCA.

Through this exercise, the authorities sought to verify “in situ” how prepared companies are for appropriately using the FYDUCA that will support the free movement of goods (that are nationalized only once within the single Central American customs territory), as well as verify the time it will take to cross the border once the Customs Union is implemented.

El Salvador is now able to follow up on and apply the Resolutions of the Ministerial Departments (RIM) of the Customs Union, with the most important ones being RIM 11: Approval of the FYDUCA Form, and RIM 17: Approval of the Regulation for the Operation of the Deep Integration towards the Free Movement of Goods and People, for

the Member States of the Customs Union.

What are the main implications in the Registry for VAT Control of the operations supported by the FYDUCA?

- a. This document may only be used by those economic actors that are payers of the VAT in the countries of the Customs Union. Therefore, it will be considered a document that supports internal tax operations and will no longer be a customs document.
- b. The FYDUCA will document transfers (previously exports) and acquisitions (previously imports) of freely moving goods that are traded between payers of the VAT in Guatemala and El Salvador and of the Sales Tax –ISV- in Honduras.
- c. The document constitutes an Invoice and Declaration. For Salvadorian taxpayers, it will support the acquisition of goods from suppliers in Guatemala and Honduras, and with this document the corresponding VAT will be paid at the respective customs office.
- d. There will be goods included in a list of exceptions to the application of free movement of goods. In these cases, the goods must be documented as a Central American import with a DUCA.
- e. The VAT will be settled by the purchaser at the rate regulated in each internal tax legislation; 13% in the case of El Salvador. The VAT paid by the purchaser shall constitute a tax credit
- f. These documents will form part of the Company’s tax file, and shall be subject to oversight and tax reviews.

- g. The VAT Books should be adapted in order to incorporate special columns for the recording of the FYDUCA under the itemizations of acquisitions (Book of Purchases) and transfers (Book of Sales).
- h. Changes are expected to be made in the Tax Return for the Tax on the Transfer of Movable Goods and the Rendering of Services (F-07) in order to detail the information regarding transactions documented with the FYDUCA.
- i. The provision is applicable as a Customs Union, without modifying the tax treatment of other internal tax regulations.

This information has been shared by the authorities of the Treasury Department at conferences and through news items on web pages, among other institutional sources.

Given the above, it is necessary for companies to be prepared and trained in the changes occurring in the trade dealings with the economic actors of Guatemala and Honduras, in order to comply with the new provisions and avoid operating delays in their implementation.



Magdalena Tobar
Tax and Municipal Compliance
Senior Manager
mtobar@deloitte.com
www.deloitte.com/sv

Regulatory Summary

Authentic interpretation of Article 28 Income Tax Law: Tax treatment of shrinkage, losses or necessary expenses recognized in the business costs

On 29 May 2019, the Legislative Assembly passed Legislation Decree No. 345, which includes an authentic interpretation of Article 28 of the Income Tax Law, specifically regarding the definition of ***"costs and expenses necessary for producing income and for preservation of the source"***.

Thus, according to this authentic interpretation, it should be understood that the purchasing costs and all those costs that are necessary and pertaining to the business, intended exclusively for such purpose, will be deductible in the Annual Income Tax Return.

The above includes shrinkage, losses or necessary expenses incurred for the production of income and for preserving the income generating source, regardless of the itemization in question, in the industrial, commercial or services sectors, which is measurable, recognizable, inherent to the business and has an actual cost for the activity performed, such as the trading of perishable goods, the trading of consumer goods, textiles, the electricity industry in all its stages, and the hydrocarbons sector in all its stages, among others.

In addition, the amounts claimed as deductible should be duly documented and recognized or credited by the current governing bodies or corresponding regulating entities.

In this respect, it is important that all taxpayers make a diagnosis and review their inventory management operations to determine whether there are any expenses for shortages and/or losses that could be considered as deductible for purposes of the annual Income Tax settlement.

It is worth mentioning that the Decree cited above is set to be published in the Official Gazette on 31 May 2019, and will go into effect 8 days after its publication.

Tax Calendar

June 2019

The updated 2019 tax calendar is now available on the Tax Administration's website, 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	29	30		

Day 14

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)
- Statement of Origin and Application of Funds (F-950)

Day 24

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).

Day 17

Father's Day

Contacts:

Federico Paz
Lead Partner of the Tax,
Legal Services
fepaz@deloitte.com

Ghendrex García
Tax and BPS Partner
ggarciaq@deloitte.com

Magdalena Tobar
Tax and Municipal Compliance
Senior Manager
mtobar@deloitte.com

Cosette Fuentes
Legal Services Manager
cg.fuentes@deloitte.com

Henry Aguirre
BPS Manager
haquirre@deloitte.com

Alvaro Miranda
Transfer Pricing Manager
ajmiranda@deloitte.com

Wilmer García
Transfer Pricing Manager
wsgarcia@deloitte.com

Global news, local views
Deloitte tax@hand newsfeed

Descarga la APP



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500@companies. Learn how Deloitte's approximately 264,000 people make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2019. Deloitte El Salvador, S.A. de C.V.