



Tax Newsletter

Timely news and information on national tax issues

Strategies that companies with corporate offices in the U.S. should to assess given the issuance of the New Tax Haven Guide DG-01/2019

I. Issuance of the New Tax Haven Guide DG-01/2019

In accordance with that established in Article 62-A of the Tax Code, the General Office of Internal Revenue (DGII) issued on September 2019 the "General Orientation Guide for Facilitating the Recognition of Countries, States or Territories with Preferential Tax Regimes and their Applicable Tax

Treatment (DG-001/2019)," hereinafter referred to as the Orientation Guide or Tax Haven Guide.

For more detailed information on the main changes in this new guide, please consult the following link: [Tax Alert | New Tax Haven Guide DG-01/2019](#)

Among the important aspects of this new version of the guide,

we can mention that the states of the United States of America previously included on the list, which for tax purposes should be considered as tax havens in El Salvador, remain on the list and are as follows: **South Dakota, Delaware, Florida, Nevada, and Wyoming.** However, the new version of the guide has added **Texas and Washington** to the list.

Similarly, in accordance with this guide, companies established as a **Limited Liability Company (LLC)** should be considered, for purposes of the application of the Salvadorian tax regime, as tax havens.

The inclusion of a state or a type of company to this list has the following implications for Salvadorian taxpayers:

- The Income Tax withholding (ISR) for payments of services or distributions of dividends may increase from 20% or 5%, to **25%**, based on the Guide’s classification.
- For transfer pricing purposes, a requirement to exclude entities resident in jurisdictions considered as tax havens from the comparability analysis (in accordance with article 199-D of the tax code); and
- Transactions carried out by a local taxpayer with persons resident in a tax haven are considered to be carried out with related parties for purposes of the transfer pricing rules (in

accordance with article 62-A of the tax code)

II. Strategies that companies with corporate offices in the U.S. should assess

Based on the previously mentioned implications, mainly regarding the change in Income Tax withholding rates, there are two strategies that Salvadorian taxpayers with corporate offices (in any of the listed states) can consider:

Option 1 – Restructuring of the Group: In the case of companies that have a parent or holding company in a state considered to be a tax haven, it is necessary to assess the possibility of moving the shares to another company in a jurisdiction/territory in which the tax rate is greater than 80% of what would be paid in El Salvador, that is, 22%.

Option 2 – Verification of tax rate: Request from the related company or supplier domiciled in a tax haven, that it provide the documentation that supports if that entity abroad pays tax rate higher than 22% it would pay in El Salvador.

In this way, it will be possible to avoid an increase in the Income Tax withholding rate in El Salvador for payments made to these entities, as well as the repercussions that this situation causes in the TP Regime.



Alvaro Miranda
Transfer Pricing Manager
ajmiranda@deloitte.com
www.deloitte.com/sv

Tax Calendar

November 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

November 1

Other Obligations

Form for Report on Representation Letter regarding the Report on Compliance with the Obligations Contained in the International Services Law corresponding to the first half of the year 2019 (F-462) and Appointment of Auditor.

November 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

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)

November 21

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).

Contacts:

Federico Paz
Tax & Legal Managing Partner
fepaz@deloitte.com

Ghendrex García
Tax and BPS Partner
ggarciaq@deloitte.com

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

Henry Aguirre
BPS Manager
haguirre@deloitte.com

Alvaro Miranda
Transfer Pricing Manager
ajmiranda@deloitte.com

Wilmer García
Transfer Pricing Manager
wsgarcia@deloitte.com

Jhonny Flores
Tax Consulting Manager
jflores@deloitte.com

Daysi Acosta
Tax Compliance Manager
daacosta@deloitte.com

Global news, local views
Deloitte tax@hand newsfeed

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