



Doing Business El Salvador 2026





Preface

Welcome to the edition 2026 of the Doing Business Guide in El Salvador, an annual publication prepared by PwC Interamericas. The purpose of this publication is to provide the investors a high-level overview of Central America and the Dominican Republic.

Certainly, like every country, there are challenges, many of which are being addressed as the governments seeks to simplify regulatory frameworks, market-friendly policies, and improve the overall ease of doing business.

This guide only provides an overview of existing opportunities. Credible advice is at the heart of decision-making, so this information should lead to a more detailed and personalized analysis of the local

markets, economic environment, political climate and legislative processes that suit your type of investment. If you need more information, the PwC Interamericas team will be delighted to assist you on an individual basis and walk with you on this journey to explore the opportunities for investments in this territory.

El Salvador

El Salvador is the former site of the ancient Pipil civilization and was conquered in 1524 by Spain, under whose rule Diego de Holguín and Gonzalo de Alvarado founded the capital city of San Salvador in 1525. El Salvador declared independence from Spain on September 15, 1821.



In 1839, the Central American Federation (United Provinces of Central America) was dissolved.

El Salvador achieved political stability and notable economic growth in the 1990s. The political system is based on a partisan democracy, in which different thoughts and ideologies converge, electing its main officials through the free and equal suffrage of its citizens.

Why invest in El Salvador?

El Salvador has important investment attraction expectations for the year 2026; up next we will discuss some useful perspectives when considering investing in El Salvador.

Technology industry and cryptocurrencies

In this sense, the “Law to Promote Innovation and Technology Manufacturing” approved in 2023 by the legislature aims to contribute to economic growth and the sustainable development of the country by strengthening competitiveness through the promotion of innovation and the manufacture of technology developed in the national territory.

Infrastructure

On the other hand, El Salvador aims to develop in the near future, important infrastructure projects consisting of the construction of highways, wastewater treatment plants, lighting and video surveillance, the creation of a logistics economic zone at the country’s main airport, among others that are expected to be developed under the Public-Private Partnership modality, all of which are expected to generate important investment opportunities for our clients in the infrastructure sector.

Tourism

It is expected that the investment in infrastructure will have a great impact on the coastal zone of the country where tourism investors and their clients will be able to have access to the beautiful Salvadoran beaches, as well as to the tax benefits offered through the Tourism Law mentioned earlier in this document; it is important to mention that the benefits of the Tourism Law are not restricted to the coastal zone of El Salvador.

In addition to the aforementioned, it is important to notice that the Executive Branch is promoting the construction of a new airport in the eastern part of the country, as well as the construction of a railroad connecting San Salvador with the Port of Acajutla, both projects are in the analysis and design stage, according to official sources.

Energy

The energy sector in El Salvador is one of the most important for the country, which has a great projection

especially regarding the generation of electricity from renewable sources such as hydroelectric, geothermal, wind, solar, marine, biogas and biomass, which have significant tax incentives as established in the Law of Fiscal Incentives for the Promotion of Renewable Energy in Electricity Generation, these benefits make El Salvador really interesting on the eyes of the participants of the energy sector.

International trade

In this context, it is important to highlight that El Salvador has trade agreements with Central America, Chile, Taiwan, Colombia, South Korea, Cuba, Ecuador, the United States, Mexico, Panama, Peru, the Dominican Republic and Venezuela, which undoubtedly represent an incentive for foreign investment in El Salvador.

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Overview of the country



Climate

El Salvador has a tropical climate with two distinct seasons: the rainy season (May to October) and the dry season (November to April).

Population, form of government, language, currency, others

Area	21,041 km ²
Population	6,029,976 millions of inhabitants (2024)
Population per km2	287 inhabitants for km ²
Population growth	0.4 % (2023)
Urban population	61.6% (2023)
Political system	Republican Democracy and Representatives
Form of government	Presidencial
Language	Spanish
Currency	United States dollar (US\$) and Bitcoin (Btc)
Administrative Division	262 Districts, 44 Municipalities and 14 Departments
Religion	Catholic
Capital Ciy	San Salvador

Source: Dirección General de Estadística y Censos, www.digestyc.gob.sv.

Education

The Salvadoran public education system consists of the following levels:

- Initial level for children up to 6 years old).
- Basic level – Elementary (starts after initial level is finished and lasts 9 years).
- Middle level – High school/Certificate of completion of the grade (starts after basic level is finished and lasts 2 - 3 years).
- Superior level – University or College (starts after the middle level is finished and last 5 years).

Education through high school is officially free. The school year begins at the end of January and ends in Mid November.

The Ministry of Education, Science and Technology regulates all educational institutions and directs the public school system. There is a wide range of private educational institutions that are also regulated and must meet certain requirements established by the aforementioned Ministry.

There are approximately 50 public and private higher education institutions, of which 25 are universities, technological institutes and specialized institutes.

Most of these institutions offer graduates courses and master's degrees, as well as information technology courses which continue to add new professionals to the country's existing skilled labor pool every year.

Political and legal system



Legal framework

The legal structure of El Salvador is composed of three main powers – Legislative, Executive and Judicial – organized as follows:

Political and legal framework			
	Executive	Legislative	Judicial
Exercised by the:	The President	Congress	Supreme Court of Justice
Composed of:	The President and the Ministries council	Single Chamber (84 Congressmen) Chosen by direct vote for a three year period, with the possibility of reelection for a second term	The Supreme Court of Justice is composed of 15 magistrates
Elected or appointed by:	The President and Vice-President are elected by direct vote every 5 years	The Deputies are elected by direct vote every 3 years	Elected by the Congress for a period of 9 years. The Chief Magistrate is also President of the Constitutional Court.

The legal system is based on Napoleonic Code.

In the elections of February 28, 2021, the congressman/woman to the Central American Parliament (Parlacen), the Legislative Assembly and members of the municipal councils of the Republic of El Salvador were elected.

Main political parties

- Republican Nationalist Alliance (Alianza Republicana Nacionalista) ARENA
- Frente Farabundo Martí for National Liberation (Frente Farabundo Martí para la Liberación Nacional) FMLN
- Grand Alliance of National Unity (Gran Alianza por la Unidad Nacional) GANA
- National Conciliation Party (Partido de Concertación Nacional) PCN
- Christian Democratic Party (Partido Demócrata Cristiano) PDC
- Partido Vamos VAMOS
- Partido Nuevas Ideas NI
- Partido Nuestro Tiempo NT

The Economy



Inflation

According to the Consumer Price Bulletin No. 23 of the Consumer Price Index (CPI) for September 2024 of the National Statistics and Census Office (ONEC) the accumulated inflation is

0.83%

Source: <https://www.bcr.gob.sv/documental/Inicio/vista/5df878fb11d3ed184893b5bf0df128a7.pdf>

El Salvador has one of the most stable integrated economies in Latin America. Its attractive and dynamic business environment is the result of a policy-driven strategy that has focused on building sound macroeconomic fundamentals and strong institutions, promoting competition and international integration, and creating a fair, more equitable society in which all citizens benefit from economic development.

PIB (US\$ millones)

	2020	2021	2022	2023
GDP				
Nominal GDP (US\$ m)	24,930.09	29,451.25	32,488.72	34,015.62
Real GDP growth (%)	7.26%	18.14%	10.31%	6.34%
Prices and financial indicators				
Exchange rate SVC US\$ (end-period)	8.75	8.75	8.75	8.75
Lending interest rate (avg.%)	6.6%	6.2%	6.4%	7.53%
Current account (US\$ m)				
Trade goods balance	-5,082.44	-8,222.53	-9,992.91	-9,150.25
Goods: exports FOB	4,805.45	6,394.89	7,115.11	6,498.09
Goods: imports cif	9,887.88	14,617.42	17,108.01	15,648.34
Unemployment				
Unemployment (k employees)	200.9	185.8	151.35	161.40

Source: Prepared by PwC SV based on data published by the BCR.

GDP 2023 by sector is made up of the following way:

Agriculture, forestry and fishing	4.74%
Manufacturing industries	-0.96%
Other service activities	6.18%

Source: <https://estadisticas.bcr.gob.sv/serie/producto-interno-bruto-produccion-gasto-e-ingreso-a-precios-corrientes>

Doing business in El Salvador



Government attitude toward foreign investment

Government policies have been friendly toward foreign private investment. The country provides tax incentives to attract foreign investment and new commercial and industrial development. These benefits are regulated by the Investment Law, the Industrial and Commercial Free-Zones Law, the International Services Law, Tax Incentives for the Promotion of Renewable Energy Law, the Law for Reactivation of Exports, Special Law on Public Private Partnerships and the Investment Funds Law, and the Special Provisions for the Promotion and Granting of Tax Incentives for the Promotion of the Development of High-Rise Real Estate Projects.

Foreign direct investment has been playing a vital role in driving El Salvador's rapid modernization. It has not only helped sustain economic growth but has also brought improvements in social conditions and in overall development indicators.

Free trade agreement and other agreements

El Salvador's open economy, coupled with the bilateral, regional and multilateral trade agreements it has entered into, has led to increased sustainability of international trade and has helped the country become internationally competitive.

Agreements and treaties such as CAFTA are in place with other Central American countries and the United States for purposes of easing and fostering free trade among member countries. In addition, El Salvador is party to a common market, under a broad treaty whose

main objectives are the free exchange of products originating in the member states and a common customs tariff on products imported outside the area.

El Salvador is part of the association agreement that Central America signed with the European Union, which entered into force on October 2013. Likewise, El Salvador is part of the association agreement with the United Kingdom of Great Britain and Northern Ireland, which entered into force in January 2021.

Forms of foreign investment

After recognizing the variety of opportunities El Salvador offers, international companies have been steadily making their way into different sectors of the economy. Moreover, due to El Salvador's growing network of free trade agreements, they not only target the domestic market, but also enjoy privileged access to almost 500 million consumers in the Americas. The country offers a variety of services, including embroidery, industrial laundry, dyeing and finishing, cutting and packaging.

Many companies outsource their production and rely on the work ethic of Salvadorans to compete in today's crowded marketplace. Many companies outsource their production and rely on the work ethic of Salvadorans to compete in today's saturated market.

The Salvadoran government has two entities that play an important role in matters related to foreign investment. One of them is the Agency for the Promotion of Investments and Exports of El Salvador (INVEST), which is in charge of issuing the resolutions

that determine access to the regime established in the Law of Legal Stability for investments; that is, to issue a resolution to investors so that they enjoy guarantees of tax stability in internal (excluding indirect taxes), municipal, customs, among other benefits. On the other hand, there is the National Investment Directorate (DNI), in charge of facilitating, centralizing, and coordinating the government procedures that national and foreign investors must follow for the execution of their various economic, commercial, fiscal, immigration, and security obligations, any other nature. El Salvador has already signed trade agreements with Central America, Chile, Taiwan, Colombia, South Korea, Cuba, Ecuador, the United States, Mexico, Panama, Peru, the Dominican Republic and Venezuela.

Restrictions on foreign investment

The Article 7 of the Investment Law establishes that foreign investments shall be limited to the following activities:

- Small-scale trade, industry and services, as well as coastal fishing, under the terms established by law, are the exclusive property of Salvadorans by birth and of Central Americans.
- The subsoil belongs to the State, which may grant concessions for its exploitation..
- Rural real estate cannot be acquired by foreigners whose home countries do not have equivalent rights for Salvadorans, except in the case of land for industrial establishments.

It is important to note that there are no limitations regarding the nationality of the founder shareholders. If the shareholders are foreigners, they may grant a Special Power of Attorney (authorized by a Notary Public and bearing an Apostille seal where applicable) to avoid traveling to El Salvador to sign the Public Deed of Incorporation.

- State permission is required for the operation of docks, railways, canals and other works of public use.
- Investments made in shares of banks, financial institutions and currency exchange offices are subject to the limitations stated in the laws governing such institutions.
- The maximum amount of rural land belonging to the same person or entity may not exceed 245 hectares. This limitation shall not apply to cooperative associations or communal farms, which are subject to special rules.
- The state has the power to regulate and monitor public services provided by private companies as well as approve their fees, except those established in accordance with international treaties or conventions.
- State authorization is required for the operation of docks, railways, canals and other works for public use.
- Investments made in shares of banks, financial institutions and exchange houses are subject to the limitations established in the laws that govern these types of institutions.

Establishing business in El Salvador

The Commercial Code of El Salvador, which came into force in 1970 and has been amended and supplemented by subsequent laws, regulates commercial activities, including business structures.

Companies may be established in the name of individuals and in the name of entities that are classified by law as legal entities. Companies in El Salvador are divided into personal companies and capital companies, which may have either fixed capital or variable capital.

Incorporation process

- Signing a Deed of Incorporation before a Salvadoran Notary Public incorporates the company. In the case of Simplified Stock Companies (hereinafter “SAS – Sociedades por Acciones Simplificada in Spanish”), they are established using the forms issued by the Commercial Registration.
- For the Public Deed of Incorporation to be granted, at least two(2) persons must appear as founder shareholders, which can be individuals or companies. In the case of SAS only one shareholder is necessary.
- The Public Deed shall be registered at the Registry of Commerce in order to obtain legal status (juridical person or entity).
- The stock capital of the company must be at least US \$2,000.00. At incorporation, at least 5% of the capital must be paid. In the case of SAS the share capital could be at least \$1.00
- The company’s administration may be entrusted either to a Board of Directors or to a Sole Administrator, and their respective Alternates must also be appointed. The Directors or Sole

Administrator may remain in their positions from one to seven years, and may be reelected.

- The company must also request a Business and Commercial License from the Registry of Commerce. Said license must be renewed every year, with the relevant fees due during the same month the company was originally incorporated.
- The initial balance must be registered at the Registry of Commerce.
- The company must be registered at the local City Hall of the city where it will be operating and the National Census Office (ONEC - Oficina Nacional de Estadísticas y Censos).

It is important to note that there are no limitations regarding the nationality of the founder shareholders. If the shareholders are foreigners, they may grant a Special Power of Attorney (authorized by a Notary Public and bearing an Apostille seal where applicable) to avoid traveling to El Salvador to sign the Public Deed of Incorporation.

Branch and/or permanent establishment

For tax and commercial purposes the branch is a domiciled entity, having the same rights and obligations as local companies. A branch of a foreign company is subject to Salvadoran law.

Regarding the capital required by law to establish a branch in El Salvador, the commercial law does specify a minimum capital, and establishes that the branch should register the capital necessary to perform



its commercial activity, with said investment initially registered at the National Investments Office (ONI – Oficina Nacional de Inversiones) of the Ministry of Economy, before filing the entity’s registration with the Registry of Commerce.

In addition, the branch must be registered in El Salvador at the following local authorities/ entities:

- Ministry of Finance– General Directorate of Internal Revenue (DGII) – Dirección General de Impuestos Internos.
- ONEC
- Ministry of Labor.
- Local Municipality.
- Salvadoran Social Security Institute (ISSS).
- Pension Fund Administrator (AFP).

The minimum capital to establish a branch is US\$12,000

A branch in El Salvador must be registered with the Commercial Registry.

The following documentation must be submitted:

- A certified copy of Articles of Incorporation (By-laws) of the foreign company that will establish the branch. If the Articles of Incorporation are in a language other than Spanish, the documentation must be translated into Spanish before a Salvadoran Notary Public.
- Agreement issued by the company’s administration (i.e. Shareholders Meeting, Board of Directors) approving: (i) the establishment/opening of the

branch in El Salvador, and (ii) the designation of the legal representative.

- Power of Attorney granted by the company to a domiciled local person or to a foreigner residing permanently in El Salvador, to act as the legal representative of the branch and to carry out the registration process with the relevant authorities.
- The minimum capital must enter the country through a transfer of funds to a bank of the local financial system, in order to obtain the document ‘Proof of foreign currency income’ (“Comprobante de ingreso de divisas”) required to register such investment at the ONI.

De facto partnerships

In El Salvador, de facto partnerships are the union of two or more people with the same objective or interest to develop a commercial activity.

Free Zone Law

The Industrial and Commercial Free Zone Law No. 405 dated September 3, 1998 grants companies the following incentives:

- Income tax exemptions.
- VAT exemptions.
- Municipal exemptions from real estate transfer tax when land is intended for productive activities.
- Exemptions from duties on imports of machinery, raw material, equipment and intermediate goods used for production.

Investment funds are exempt from income tax and VAT and any other kind of taxes, fees and special contributions.

- Option to sell merchandise or services linked to international trade produced in the free zone in the Salvadoran market is permitted as long as companies pay the corresponding import tax, income tax, VAT, and municipal taxes on the final goods admitted.

Any foreign company may establish and function in a free zone if they are engaged in production, assembly, manufacturing, processing, transformation, or commercialization of goods and services, and/or rendering of services linked to international or regional trade, such as gathering, packaging and repackaging, cargo consolidation, distribution of merchandise and other activities connected or complementary to them. The International Services Law No. 431 dated October 11, 2007 grants the same benefits as the Free Zone Law, but the beneficiaries are companies operating in Service Centers especially created by this law and dedicated to international services as defined therein.

Tourism Law

Companies engaged in tourism that start operations or carry out reinvestments, in both cases for amounts equal to or greater than USD 25,000.00 are eligible to be declared as of “National Touristic Interest” with applicable benefits such as full exemption from income tax for a period of ten years, full exemption from taxes on the transfer of real-estate property, exemption from customs duties on imports of goods, equipment, accessories and machinery and partial exemption from municipal taxes (up to 50%) for a period of five years.

The Renewable Energy Incentives Law

This Law benefits companies dedicated to the exploitation of renewable resources (hydraulic geothermal, wind, solar, marine, biogas and biomass), with the following benefits: exemption from income tax for a period of five years for projects above the 10MW and ten years for projects under the 10MW or less, exemption from customs duties on imports of machinery, equipment and materials for the first ten years and the total tax exemption on the proceeds from the sale of Emission Reduction Certificates, when certain requirements are met.

Public Private Partnerships Law

Its objective is to guarantee legal certainty in customs, tax and immigration areas, through the conclusion of Legal Stability Contracts. Companies that undertake the commitment to invest an amount equal to or greater than 45 thousand times the minimum wage in fixed assets may apply, ie approximately US \$ 13.6 million, extending the benefits to a term of up to 40 years.

Legal Stability Law for Investments

Its objective is to guarantee legal security in customs, tax and immigration areas, through the celebration of Legal Stability Contracts. Companies that commit to investing in fixed assets an amount equal to or greater than 4,222 times the minimum wage, or approximately US\$1.2 million, with benefits extending to a period of up to 20 years.

Investment Funds Law

This law establishes that investment funds can be formed by the contributions of different investors-called participants- and administered by a limited company called the administrator, at the expense and risk of investors, the supervision framework of the Investment Funds, their quotas, the companies that administer them, etc.

There are two types of investment funds: i. Open: These funds do not have a defined duration time and the participants can withdraw their participations in any given time the total or partial amount.

The open funds must have a minimum capital of USD\$ 350,000 and at least 50 participants, or 10 participants if one of these is an institutional investor. ii. Closed: These funds have a defined duration of time and the participants will only receive the corresponding amount to their shares at the end of the fixed period, Close funds should have a minimum capital of USD\$350,000 and at least 10 participants, or 2 participants if one of these is an institutional investor. Investment funds are exempt from income tax and VAT and any other kind of taxes, fees and special contributions. Likewise, natural persons who invest in the funds will be exempt from the payment of Income Tax on the proceeds from their participation quotas, for the first 5 years following the establishment of the first investment fund. Natural persons or legal entities not domiciled in the country will enjoy a reduced rate of 3% withholding income tax.



Investment Law

Legislative Decree No. 732, dated October 14, 1999, promulgates the Investment Law; which aims to encourage investment in general and foreign investment in particular, to contribute to the economic and social development of the country. Its benefits can be:

- Streamlining procedures.
- Equality for investors, both foreign and domestic, having the same rights and obligations.
- Freedom to make investments.
- Transfer of funds abroad.
- Protection of property and security.

Construction Projects Procedure Streamlining Law

The purpose of this law is to streamline procedures and administrative procedures carried out by the Executive Branch, autonomous entities and municipalities, for the granting of permits and authorizations for the development of construction and subdivision projects.

Electronic Signature Law

Approved in October 2015 and through Legislative Decree No. 133, this law equates the simple electronic signature and the certified electronic signature with the handwritten signature. In addition, it recognizes the legal value of the certified electronic signature, the data messages and all information in electronic format that are subscribed with a certified electronic

signature, regardless of its material support. Also, it regulates and controls matters related to electronic certification service providers, electronic certificates and electronic document storage service providers.

Law to promote innovation and technology manufacturing”

Approved in April 2023 through Legislative Decree No. 722, which aims to contribute to the economic growth and sustainable development of the country by strengthening competitiveness through the promotion of innovation and the manufacture of technology developed in the national territory, promoting the growth of the workforce trained to generate advanced technological products and services, also strengthening participation in supply chains essential for the development of the technological industry globally.

Bitcoin law

In June 2021, the Legislative Assembly of El Salvador approved the “Bitcoin Law”, on this same date the Bitcoin Law was published in the Official Gazette No. 110, Volume 431, the aforementioned law entered into force on September 7, 2021. The purpose of the Bitcoin Law is to regulate bitcoin as an unrestricted legal tender with unlimited liberating power in any transaction and in any capacity that public or private individuals or legal entities require to carry out.

According to the law in question, the exchange rate with respect to the Dollar of the United States

of America (“USD”) will be freely established by the market; additionally, it is established that all prices may be expressed in bitcoin; additionally, it establishes that the obligations in money expressed in USD prior to the entry into force of this law may be paid in bitcoin. The Bitcoin Law establishes that all economic agents must accept bitcoin as a form of payment when required by someone who acquires goods or services. Excluded from the obligation to accept bitcoin as a form of payment are those who, due to well-known facts and in an evident way, do not have access to the technologies that allow executing transactions in bitcoin. Bitcoin can be used to pay all tax obligations; additionally, it is established that “exchanges” in bitcoin will not be subject to capital gains tax; and regarding accounting, it is established that the USD will continue to be used as the reference currency.

It is also established that the state must provide alternatives that allow users to carry out transactions in bitcoin, as well as have automatic and instant convertibility from bitcoin to USD, when required, subject to the regulations issued by the Central Reserve Bank and the Superintendence of the Financial System. Additionally, the State will guarantee, through a trust in the Development Bank of El Salvador (BANDESAL), the automatic and instant convertibility of bitcoin to USD.

On January 30, 2025, the Legislative Assembly of the Republic of El Salvador, through Decree No.199, determined the need to reform the Bitcoin Law, with

the following modifications being the most relevant:

- The law aims to regulate Bitcoin, defined by its unlimited liberating power, with voluntary acceptance by individuals or private entities, in any transaction and for any purpose they may need to carry out.
- Only individuals or private legal entities may accept Bitcoin as a form of payment when offered by someone acquiring a good or service or for the payment of any monetary obligation.

The aforementioned Decree will enter into force 90 days after its publication in the Official Gazette.

Special Provisions for the Promotion and Granting of Tax Incentives for the Promotion of the Development of Real Estate Projects

Approved in September 2024, by means of the Legislative Decree, its purpose is to establish special provisions to promote the realization of investments and economic activities in high-rise real estate development projects; as well as the granting of tax incentives in the area of Income Tax, in respect of the same. The benefits referred to in the Special Provisions are: i) Exemption from Income Tax from the year in which profits and income begin to be obtained; ii) the income obtained is not subject to the application of Capital Gains; iii) withholding at source in the distribution of dividends, this provision will be applicable both to the entity that owns the project and to its immediate shareholders; and iv) the income obtained will not be subject to the advance payment of

Income Tax. These incentives will be valid for 15 years from the year in which profits and income begin to be obtained.

Intellectual Property Law

Establishes the legal framework for the protection and observance of intellectual property rights and other industrial rights and privileges, as well as for the protection of innovation and creativity, facilitating the dissemination of information, knowledge, technology, culture and arts, thereby promoting the development of economic and sustainable growth in El Salvador.

Banking system



Central bank

El Salvador's financial sector is regulated by the Banco Central de Reserva (BCR), which is supported by the Superintendent of Banks (SSF), Superintendent of Pensions (SP), Superintendent of Securities (SV) and the Institute of Guarantees and Deposits (IGD).

The BCR is the authority responsible for exchange controls. The enactment of Law No. 746, dated April 12, 1991, empowers the Central Bank to promote and maintain the monetary, exchange and financial conditions that most benefit the stability of the national economy.

Commercial banks

Thanks to El Salvador's continuous reforms in the financial sector, it has established a strong banking community, with positive tax laws that attract foreign investment. In 1990, the Superintendent of Banks, an independent regulatory body that supervises the banking sector according to the Basle Committee recommendations, was established to develop the Salvadoran banking sector in line with international standards.

Law against Money Laundering and Assets

Dated December 2, 1998, this law is intended to prevent, detect, punish and eradicate the crime of money laundering and assets laundering, as well as the withholding of information.

Law for the Insurance Companies

Dated October 10, 1996. This law has the purpose of regulating the constitution and operation of insurance companies, as well as, the participation of insurance intermediaries, in order to protect the public's rights and facilitate the development of insurance activity.

Law of Banks

Dated September 2, 1999. The banks law is intended to regulate financial intermediation and other bank operations, fostering a transparent, reliable and agile service that contributes to the nation's development.





Law of Monetary Integration

Dated November 30, 2000. This law establishes that the legal exchange rate between the colón and the U.S. dollar is fixed and unalterable, at 8.75 colones per U.S. dollar, from the date of the law's enactment.

Law for the Creation of the Development Bank

Development Bank No. 847 dated September 22, 2011. The law created the Development Bank as a public institution for credit. The bank's objective is to promote the development of investment projects in the private sector in order to:

- Promote the growth and development of all productive sectors.
- Promote the development and establishment of businesses.
- Foster the development of micro and small businesses.
- Generate jobs.

Improve education and health services.

Foreign Banks: According to Article 31 of the Banks Law No. 697, a foreign bank operating in El Salvador shall have the same rights and obligations as Salvadoran banks. Foreign banks will operate in the country through branches, which must obtain prior authorization from the Superintendent of Banks (SSF). In addition, they will be subject to the same laws and regulations as national banks, and under the supervision of the aforementioned Superintendent.

List of banks

Central bank
Central Bank of El Salvador.

Government-owned banks

Banco de Fomento Agropecuario.
Banco Hipotecario.
Development Bank of El Salvador (Bandesal, Banco de Desarrollo de El Salvador).

Private banks

Banco Agrícola, S.A.
Banco Cuscatlán de El Salvador S.A.
Banco Davivienda Salvadoreño, S.A.
Banco Promérica, S.A.
Banco de América Central, S.A.
Banco Atlántida de El Salvador, S.A.
Banco ABANK, S.A.
Banco Industrial El Salvador, S.A.
Banco Azul El Salvador, S.A.
Banco Apoyo Integral, S.A.

Branch of foreign Banks

Citibank N.A. El Salvador branch

There are also Cooperative Banks and Savings and Credit Associations that complement the financial system.

Labor and social security



Labor supply

Below are the employment statistics according to the Multiple Purpose Household Survey published by the Central Reserve Bank for the year 2022, for which an average sample of 19,968 homes is taken annually; with which information is obtained at the national level, of the urban and rural area:

Employed population, by branch of economic activity

	2021	2022	2023
Commerce, hotels and restaurants	31.7%	31.3%	22.0%
Agriculture, livestock, hunting and forestry	14.2%	14.3%	20.5%
Manufacturing industries	15.1%	14.6%	12.7%
Community social and health services	6.2%	6.3%	4.1%
Financial intermediation, real estate	6.4%	6.4%	7.9%
Households with domestic services	5.4%	5.8%	1.3%
Construction	7.7%	7.9%	14.4%
Transport, storage and communications	4.9%	5.0%	7.6%
Public administration and defense	4.2%	4.3%	5.5%
Teaching	2.6%	2.7%	1.7%

Source: Multiple Purpose Household Survey from 2021 to 2023 EHPM “Encuesta de Hogares de Propósitos Múltiple”, and National Statistics and Census Office and EHPM Central Reserve Bank

Termination of the contract without legal liability and without legal intervention can be done by mutual consent or by the employee's resignation.

Labor law requirements

The most important requirements set by the Salvadoran Labor Code are the following:

Wages and salaries

In July 2021, the National Minimum Wage Council approved Executive Decree No. 10 "Minimum wage rates for people who work in the areas of commerce, services, industry, textile and clothing maquila, sugar mills, coffee mills and other activities of agribusiness, as well as for home workers who work in these areas", said decree entered into force on August 1, 2021, in which the minimum monthly salary equivalent to USD \$365.00 was established for the commerce and service sector. This was determined from the basic daily salary of \$12.00 and multiplying it by 365 days of the year, the product divided by 12 months, resulting in the monthly salary to be paid to the worker regardless of the month in which he is being paid.

Profit sharing

Although it is not mandatory but a bonus may be paid according to agreements with the employer and/or goals achieved by the employee.

Christmas bonus

This bonus applies according to seniority:

- As approved by Congress employees with more than 1 year but less than 3 years with a company receive 15 days of basic salary.
- As approved by the Congress workers with more than 3 years but less than 10 years with a company receive 19 days of basic salary.
- As approved by Congress employees with more than 10 years of employment with the same company receive 21 days of basic salary. For income tax purposes, the Christmas bonus is considered as exempt income up to 2 monthly minimum wages in the commerce and services sector.

Fringe benefits

Non-cash compensation given to employees (benefits in kind) for services rendered in the country is considered taxable income for the employee.

Hours worked

Maximum working hours are 8 hours daily, and should not exceed 44 hours a week. The work week must end at noon on Saturday. Any modification in the end of a workweek to a different time has to be approved by Ministry of Labor.

Paid holidays and vacations

After a year of continuous work in the same company, workers will be entitled to a vacation period of 15 days, which will be paid with a benefit equivalent to the ordinary salary corresponding to said period plus 30% of it.

Termination of employment

Sections 48-54 of the Salvadoran Labor Code establish the causes for termination of contracts. An employment contract can be terminated with or without legal liability for both parties and can be done with or without legal intervention.

Termination of the contract without legal liability and without legal intervention can be done by mutual consent or by the employee's resignation.

Severance payment for voluntary resignation

In January 2015 the severance payment for voluntary resignation came into force in El Salvador. Therefore, any employee with more than 2 years with the same company, has the right to request a Severance payment for voluntary resignation of 15 days of basic salary for each year of work. For purposes of calculating the Severance payment for voluntary resignation, the salary should not exceed twice the legal minimum daily wage.

Technical education tax

An employer contribution of 1% is imposed on the total monthly payroll of employees applicable to those employers with more than 10 employees. This contribution is intended to finance programs for the instruction and technical training of workers, managed by the National Institute for Training and Professional Development (INCAF - Instituto Nacional de Capacitación y Formación Profesional).

The purpose of INCAF is to strengthen the skills and competencies of Salvadoran human talent by training competitive profiles.

Foreign personnel

Normally, foreign personnel intending to work in El Salvador require work permits along with a temporary residence in the country. Contracting the services of a foreign worker requires prior authorization from the Ministry of Labor.

Authorization is given for one year, provided the company employs and trains an equal number of Salvadorans in the field. This authorization may be extended for similar periods. Taxation of foreign personnel is on equal footing with nationals, as described under Taxation.

Social security

Law No. 1263 of the Social Security system in El Salvador was enacted on December 3, 1953, and was last reformed in 1994. The law is also complemented by several regulations on social security issues. Article 186 of the Salvadoran Constitution establishes social security as an institution necessary to the public interest.

The social security system contemplates: Health/ maternity benefits

For illness, the employer pays the first three days, and after the third day, social security covers 75% of salary.

For maternity, social security covers 100% (Maximum salary is \$1000) of the monthly salary and the employer grants a 16-week period for maternity care.

Disability

For one year or less of disability, a percentage of the salary is paid by social security, and for over a year pension funds will recognize a percentage of the salary depending on the level of disability.

Old age/retirement

After working 30 years, men can retire at age 60 and women at 55.

Death

Pension funds will pay the victim’s family an allowance depending on the victim’s amount of savings.

Pension Fund (AFP)

Savings are obligatory through pension funds managed by private Pension Fund Administrators, (AFP .Administradores de Fondos de Pensiones).

Monthly salary US\$	Rate %
Social security contribution	
Up to 1,000 (August 2015)	Employer: 7.50 Employee: 3
Pension fund (AFP)	
No maximum quotable salary (From January 2023)	Employer: 7.50 Employee: 3
Payroll tax (for 10 employees and above)	
Up to 1,000 (from august 2015)	Employer: 1.00 Employee: 0

Accounting, audit requirements and practices



Accounting

On October 7, 2009, the Supervisory Board of the Public Accounting and Auditing Profession (CVPCPA) issued a resolution by which, as of January 1, 2011, the financial statements of those entities whose shares or instruments of debt that are not traded in a public market or that do not have public

accountability must be prepared based on the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The financial statements of the entities whose shares or debt instruments are traded in a public market must be prepared based on the international standards of the International Financial Reporting Standard in its full version (IFRS-Full).



Statutory audit requirements

In El Salvador, all local companies and branches operating in the country are required by law to appoint an external auditor. Financial statements prepared for companies and partnerships engaged in commercial, services or industrial businesses are also required to be audited by public accountants licensed in El Salvador, which must be appointed by the entity as the external auditor for a one- year period that can be renewed indefinitely.

Under the Salvadoran Tax Code, the appointment of an external auditor to verify compliance of taxes is mandatory for:

- Entities having total assets exceeding US\$1,142,857.14.
- Entities with income exceeding 4,817 minimum wage of commercial and services sector
- Entities resulting from a merger or transformation process, and
- Companies undergoing a liquidation process.

In El Salvador the same person or entity may provide external audit services.

Books and records

- Financial Statements Book.
- Diary book.
- Ledger.
- Shareholders or Partners Registry Book.
- Book of Minutes of the General Meeting of Shareholders or Partners.
- Book of Minutes of the Board of Directors or Sole Administrator.
- Capital Increases and Decrease Book (for companies with Variable Capital Regime).
- Book of Purchases to Taxpayers.
- Book of Sales to Taxpayers.

- Final Consumer Sales Book.
- Special export annex.
- Detail of Exports attached to the Book of Sales to Final Consumer.

These books must be authorized by the external auditor, and each page must be numbered and stamped with the seal of the public accountant. According to the Commercial Code, all records must be in Spanish, and all accounts recorded in colones or in US dollars.

The books must be located and the accounting kept in El Salvador, even for branches, agencies or subsidiaries of foreign companies.

Accounting profession

Licenses to practice as a Certified Public Accountant (Contador Publico Autorizado, CPA) are issued by the Supervisory Board of Public Accounting and Auditing (Consejo de Vigilancia de la Profesion de Contaduria Publica y Auditoria).

They may be authorized to practice accounting who obtained a degree in accounting from an authorized Salvadoran university or a similar degree from a university abroad, and must have fulfilled the process established by the Ministry of Education for certification in the country.

Standard for the Assurance of Compliance with Tax Obligations (NACOT)

On April 18, 2018, the Supervisory Board of the Public Accounting and Auditing Profession issued the Regulation for the 2016 Assurance Tax Obligations, published in the Official Journal 72, Volume 419, dated April 20, 2018. This NACOT applies to assurance engagements on compliance with tax obligations for the fiscal year, starting on January 1, 2018. According to this reform, paragraph 4.1 1 establishes: the requirement of independence for the auditor, that is to say that it forbids a firm, to provide the companies with Tax Audit services and the preparation of the Transfer Pricing Study or other services for the same fis.

Tax system



The Salvadoran Congress creates national taxes, duties and other special contributions on all types of goods, services and income, while local governments (Municipalities) may draw up specific regulations on taxes and contributions and submit them to the Congress for approval.

Tax on corporate income

The current income tax rate is 30% except for entities whose taxable income is less than or equal to USD \$150,000.00 in which case, the applicable rate is 25%.

Taxable income is net after deducting costs and expenses considered necessary for generating and maintaining the related source of income, and other deductions allowed by law. Gross income, on the other hand, comprises income or profits collected or accrued, either in cash or in kind, from any sources such as business, capital and all types of products, gains, benefits or profits, whatever their origin, as well as condoned debts. Legal entities are required to follow the accrual method of accounting, which means that income is reported although not collected, and costs and expenses are reported when incurred into and not when paid for.

For tax purposes, income is computed for 12-month periods, also known as taxable periods, and the tax period for legal entities begins on January 1st and ends on December 31st of each year.

Income tax advance payments

A 1.75% tax rate is applied to gross revenues obtained, and paid monthly as advance payments which are applied against the CIT and the end of the year.

Income tax on profit distribution

The profits distributed to shareholders, partners, trustees, participants, investors or beneficiaries will be subject to withholdings of 5% (25% for distribution to beneficiaries located in Tax Havens).

Tax on branch income

In El Salvador tax rates on branch profits are the same as for domestic corporations. No tax is withheld on transfer of profits to the head office, provided the entity distributing them reports and pays the corresponding income tax thereon.

Administrative offices: the law does not provide for separate treatment of administrative offices located in El Salvador. The general regulations indicate that branches, agencies and/ or permanent establishments operating in the country, with owned or leased installed infrastructure, employing domestic staff, and conducting business in a material and public manner in the country, are subject to the same taxes as companies duly incorporated.

Excise tax

An ad valorem tax is applied on simple or sugary soft drinks at a rate of 10% on the retail price suggested to the public by the manufacturer, importer or distributor, not including VAT or taxes on returnable bottles

Capital income, products or profits excluded from the concept of income

In March 2024, the reform that excluded from the concept of income the values received, obtained abroad, whether or not generated by the investment of national or foreign capital from any kind of source abroad, came into force.

Tax on the production and import of alcohol and spirits

A specific tax of US\$0.09 to US\$0.16 is levied on domestically produced or imported alcohol and spirits for each 1% volume of alcohol per liter or in proportion. Spirits and alcohol are also subject to an ad valorem tax at a rate of 8% on the suggested retail price, not including VAT.

Tax on tobacco products

A tax of USD 0.005 applies per cigarette, cigar, small cigarette or other tobacco product. In addition, an ad valorem tax is applied at a rate of 39% on the suggested retail price to the consumer, not including VAT.

Tax on stimulated drinks

A specific tax of USD \$0.20 per liter of stimulated or energy drinks will be applied. In the event that the aforementioned beverages are packaged in volumes greater or less than one liter, the calculation of the tax will be applied in proportion to their volume. In addition, a 5% ad valorem tax will be applied on the suggested retail price.”

Tax on the Transfer of Movable Property and the Provision of Services (VAT)

VAT is levied at a rate of 13% on the taxable amount. As a general rule, the taxable amount is the price or remuneration agreed upon by the parties.

For imports, the taxable amount is the customs value.

The following transactions are subject to VAT when performed within Salvadoran territory:

- Transfer/sale of tangible movable goods.
- Withdrawal of tangible movable goods from the inventory made by the company for selfconsumption by its shareholders, directors or personnel.
- Import of goods and services.
- The supply of services of any type whether permanent, regular, continuous or periodic; technical advice and project designs; lease and sublease agreement over tangible goods; lease/ sublease agreements over real estate for commercial purposes; lease of services in general; construction of real estate properties or building contracts; auctions; freight, whether inland, air or maritime; lease/ sublease and any form of use regarding trademarks.

The following imports are exempt from VAT:

- Imports made by diplomats and Consulate representatives of foreign nations with presence in the country according to international agreements adopted by El Salvador.
- Imports made by international organizations to which El Salvador is a party.
- Travelers' luggage according to customs regulations.
- Donations to non-profit organizations.
- Imports made by municipalities, if the goods imported are for the public benefit of the community.

- Imports of machinery by a taxpayer duly registered for this purpose which will be part of the taxpayer's fixed assets.
- Vehicles for public transportation, which can only be transferred after five years. The following services shall be exempt of VAT:
 - Health services rendered by public institutions.
 - Lease and sublease of real estate properties for housing.
 - Services rendered under an employment relationship, and those rendered by public and municipal employer.
 - Public cultural performances authorized by the relevant authorities.
 - Educational services rendered by authorized entities, (i.e. the Ministry of Education, "Ministerio de Educacion").
 - Interest on deposits and loans, provided by local financial institutions or entities registered at the Salvadoran Central Bank (BCR).
 - Interest on securities issued by the government and/or private entities traded through a stock exchange.
 - Water supply by public institutions.
 - Public transportation.
 - Insurance premium covering individuals, and reinsurance in general. Exports are levied at 0% VAT. Foreign source income is not subject to VAT.

VAT taxes paid by a registered taxpayer company on its purchases (tax credits) are credited against VAT taxes charged to its customers (tax debits), on a monthly basis.

Capital gains tax

Capital gains are taxed at a flat rate of 10% of net profits, except when profits are earned within 12 months from the date of purchase, in which case they are taxed as ordinary income. Capital gains on securities are also subject to capital gains tax, however the 12-month rule described above does not apply to them. Capital losses can only be offset with capital gains. Whenever capital losses exceed capital gains, the remaining balance can be transferred to future capital gains within a period of five years.

Annual business tax

Companies are required to register with the Registry of Commerce and pay an annual business license fee assessed on the company's assets, as follows:

From US\$ 2,000 to US\$ 57,150	USD\$ 91.43
From US\$ 57,151 to US\$ 114,286	USD\$ 137.14
From US\$ 114,287 to US\$ 228,572	USD\$ 228.57
An additional charge for each office, branch or proprietary agency of a company	USD\$ 34.29

If the assets exceed the amount of US\$ 228,572, there is an additional duty of US\$ 11.43 for each US\$ 100,000 or fraction thereof. In any case, the relevant duties are limited to US\$ 11,428.57.

Municipal taxes

Municipal taxes are assessed according to a progressive tariff issued by each municipality, applicable to the company's assets located in each municipality. Taxes are paid on a monthly basis. The tariff list is applied separately to the commercial, industrial and financial sectors.

Real estate transfer tax

Transfers on real estate holdings are taxed according to the value of the real estate, at a rate of 3% applicable on amounts exceeding US\$ 28,571.43.

Other tax regime

Simplified regime for casino and slot machines. No special regime exists for casino, slot machines or betting games. In fact, legal limitations have been issued by local authorities in various municipalities prohibiting the operation of these activities.

Corporate Deduction

Allowed deductions

All business expenses considered necessary to produce taxable income and/or maintain the income source (including freight, marketing, power, telecommunications, water, salaries, lease contracts, merchandise and transport insurance, fuel, interest paid on loans used by incomegenerating sources and similar expenses) are deductible for income tax purposes.

Interest

Interest paid on loans invested to produce taxable incomes or maintain the income source. Also, if the loan was made by a foreign company or bank that is not registered with the Central Bank or if the loan is between related parties, income tax is withheld at 20%. If the foreign bank was registered with the Central Bank by 2010, then 10% income tax will be withheld.



Penalties and interest charges on unpaid taxes on income, VAT, real estate transfers, state and municipal taxes are not deductible.

Taxes

Penalties and interest charges on unpaid taxes on income, VAT, real estate transfers, state and municipal taxes are not deductible.

Depreciation

Depreciation allowances on fixed assets are determined by the straight line method at the following rates:

Type	%
Buildings	5
Machinery	20
Vehicles	25
Other movable assets	50

Depletion

Amortization of the cost of acquisition or production of computer programs used for the production of taxable income or conservation is deductible from its source, applying a fixed and constant percentage of a maximum of 25% annually on the cost of production or acquisition.

Payments to foreign affiliates

Remittance of royalties, interest income and service fees to foreign affiliates are deductible, provided proper contracts are in place and withholding tax of 20% is applied and if these services have actually been

received. Payments to entities located in tax havens are subject to a withholding tax rate of 25%.

Other significant issues

The deductibility of charitable donations is limited to 20% of the donor’s net income in the respective tax period, minus the amount of the donation.

Amortization of goodwill, trademarks and other similar intangible assets are not deductible for income tax purposes.

Net operating losses

Operating losses cannot be carried forward to future years. Salvadoran legislation does not allow for the carry back of losses except for capital losses.

Withholding tax (WHT)

Payments or amounts credited to non-residents arising from income obtained in El Salvador are subject to a 20% WHT. Income earned in El Salvador covers income from assets located in the country, and from any activities performed or capital invested in the country, and from services rendered or used in the national territory, regardless of whether they are provided or paid for outside the country. Income from services used in the country is income earned in El Salvador by the service provider, irrespective of whether the relevant income-generating activities are performed abroad. Payments to foreign entities located in tax havens are subject to a withholding tax rate of 25%. Certain transactions are subject to a reduced

withholding of 5%, such as the following:

- Dividends (see Income tax on the distribution of profits section).
- International transport services paid to non-residents.
- Insurance, reinsurance and bond services paid to non-residents.
- Payments for the transfer of intangible assets or use of rights on intangible and tangible assets related to films, music discs, cable television, satellite, etc.

In addition, there is a treaty to avoid double taxation between El Salvador and Spain, this treaty established a reduced withholding, such as the following:

- 12% withholding (or 5% since the local rate is more favorable to the taxpayer) to dividend payments. The payment is exempt from withholding if the dividend is paid by a local entity to a Spanish company that owns 50% or more of the capital of the local entity.
- 10% withholding of interest payments.
- 10% withholding made to the rent and payments of royalties.
- 10% withholding on payments for services.

Payments to individuals domiciled, regarding to services rendered that are not the result of an employment relationship is subject to a 10% WHT. The acquisition of intangible goods among domiciled entities in the country is subject to a 5% if it is a company or 10% WHT if it is an individual.

Transfer pricing ruling

In El Salvador, the entities should undertake transactions with related parties or with entities based in tax havens according to the rules of market prices.

Local tax authorities can establish the value of the operations according to market prices rules if, in their view, these operations have not been undertaken according to the arm's length principle.

Section 62 of the Salvadoran Tax Code establishes that for tax purposes, any taxpayers conducting transactions during a tax period with related parties shall be required to determine both prices and amounts of the relevant transactions, by considering their market price with respect to goods or services of the same kind sold among wholly independent parties.

Likewise, taxpayers shall determine at market prices the value of any transactions they conduct with taxpayers residing or organized or located in countries, states, or territories with preferred tax systems, or low or zero taxation or tax havens.

Moreover, Section 199-B of the Tax Code states that domestic transactions' market prices shall be understood to be the selling prices of movables or services charged by companies or concerns, located in the country and unrelated to the taxpayer, and which trade movables or services of the same kind.

For sales of movables or services made or rendered abroad, the related market prices shall be the prices which concerns other than the taxpayer and unrelated to it might have charged on sales of movables or

services of the same kind, made or rendered from El Salvador to the same country of destination.

As for importations, market prices shall be the price of movables or services of the same kind charged by companies or concerns, unrelated to the taxpayer, and located in the country where said movables may have been purchased or services contracted, plus freight costs, as appropriate. For determining market prices, in the event that more than three movables or service vendors are supplying them, price data shall be sufficient and an average thereof shall be adopted to that end.

Whenever for any reason no market prices can be determined, the tax office shall determine them based on the prices or amounts charged by the taxpayer to unrelated purchasers of movables or services other than those to which movables or services might have been sold at lower or higher market prices.

On September 2022, the General Directorate of Internal Revenue ("Dirección General de Impuestos Internos" or "DGII") issued the "Orientation Guide MH.UVI.DGII 006.006/2022" whose main objective is to provide taxpayers with guidance on the proper tax treatment of related party transactions or transactions with parties domiciled in tax havens. Orientation Guide MH.UVI.DGII 006.006/2022 generally adheres to the arm's length principle and is in line with the guidelines issued by the Organization for Economic Cooperation and Development ("OECD"). which it entered into force as of January 1, 2023.

Corporate Tax Compliance

Tax authorities: National taxes, fees and other contributions on all type of goods, services and income in El Salvador are levied by the National Congress, with local government (municipalities) permitted to suggest contribution rates and propose their approval to the National Congress by way of specific law.

Ministry of Finance ("Ministerio de Hacienda"): The Ministry controls the state's finances and defines and guides the government's financial policy, and also coordinates, directs and implements its policies on taxation, through the following agencies:

- General Directorate of Internal Revenue ("Dirección General de Impuestos Internos" or DGII) created by Law No. 451, dated February 22, 1990, replacing the former Direct
- Revenues Services and charged with managing and collecting the country's main internal revenues.
- General Directorate of Customs ("Dirección General de Aduanas" or DGA), created by Law No. 903 dated December 14, 2005, replacing the former Customs Revenues
- Services. Its main function is the exercise of its customs powers to facilitate and control international trade within its domain, and monitor and collect duties and taxes imposed upon merchandise entering and existing the territory.

Returns

VAT returns are filed on a monthly basis within the

first ten (10) working days of each month following the period under taxation. In addition, public and private juridical entities other than farm and cattle concerns, domiciled in the country for tax purposes, are required to make income tax advance payments at 1.75% of gross revenues.

These advance payments are due, together with the corresponding return, within ten (10) working days following the corresponding calendar month.

CIT annual returns must be filed each year no later than April 30, following the end of the year under taxation. In El Salvador the fiscal year is from January 1st to December 31st. These formal requirements are mandatory regardless of whether no tax is ultimately payable.

Payment of tax

Taxes are due on the date established for filing the tax returns, and paid at banks of the local financial system.

Year-end dates established by the tax code The year-end is established at December 31.

Individual taxation summary

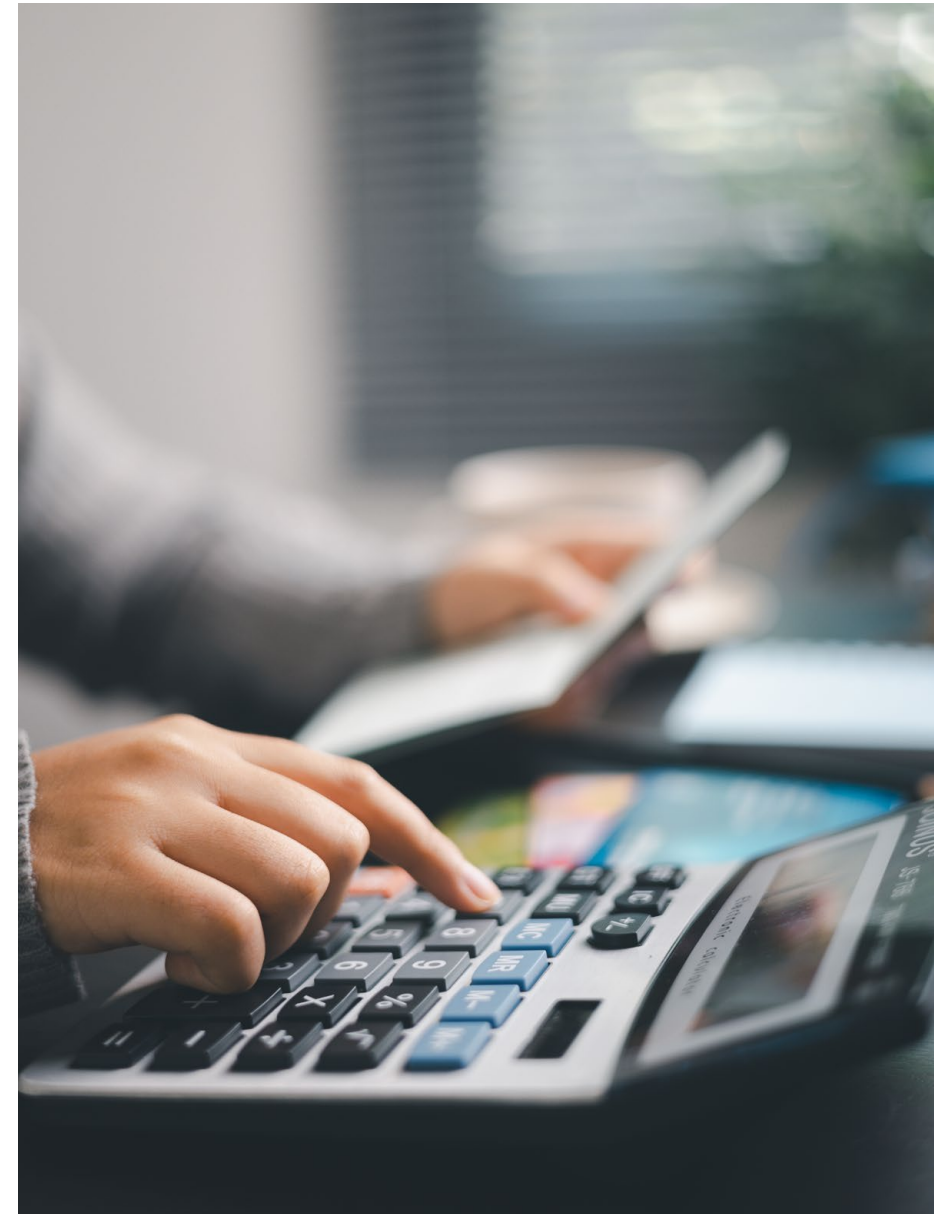
El Salvador taxes its citizens and all residents on their income earned in the country, and on any Salvadoran source income.

Taxable compensation of employees covers all types of income whether in cash or in kind, such as salaries, bonuses, overtime, paid vacations, housing and car allowances, reimbursement for tax and children's educational expenses, and other benefits in-kind.

According to the income tax law, domiciled individuals shall compute their income taxes by applying to their net income the tax rate table indicated therein.

Gross income

Broadly, the entire remuneration for personal services rendered in the El Salvador is subject to income tax. Taxable compensation of employees covers all types



Broadly, the entire remuneration for personal services rendered in the El Salvador is subject to income tax.

of income whether in cash or in kind, such as salaries, bonuses, overtime, paid vacations, housing and car allowances, reimbursement for tax and children’s educational expenses, and other benefits in kind.

Individual Deduction

Current deductions / credits

The personal deductions allowed include:

- Yearly exemption of AFP Pension fund contributions.
- Deduction of Social Security contributions.
- Deduction of educational expenses (personal, of spouse or of direct dependents under 25 years of age). These expenses include education at basic, medium, technical and college levels within the country. The deduction is limited to US\$ 800 per year.
- Deduction of medical expenses (personal, of spouse or of direct dependents under 25 years of age). These expenses include doctor fees, medicines and hospitalization within the country. The deduction is limited to US\$ 800 per year.
- The individuals earning US\$9,100.00 a year or less are entitled to a fixed deduction of US\$1,600 and are not required to file returns and submit tax payments.

The individuals whose income comes exclusively from wages/ salaries and other compensations and who have been subject to income tax withholdings, will not be required to file tax returns, except those with incomes greater than US\$ 60,000 annually as well as those individuals whose income was not subject to income tax withholdings, according to the table included in section 37.

Individual Tax Compliance Returns

Returns are filed individually. Spouses are required to file separate income tax returns covering their respective income. Income tax returns and real estate returns are due in April of each year corresponding to the previous fiscal year.

Tax payment

Employers are required to withhold income tax on salaries, wages and bonuses. Christmas bonuses, Social Security contributions, severance and termination payments are not subject to income tax, according to the Labor Code.

Current tax rates

Withholding tax scale for employees	
Monthly wage	Rate
Up to US\$ 472.00	Exempt
From US\$ 472.01 to US\$ 895.24	10% over US\$ 472.00 plus US\$ 17.67
From US\$ 895.25 to US\$ 2,038.10	20% over US\$ 895.24 plus US\$ 60.00
From US\$ 2,038.11 and above	30% over US\$ 2,038.10 plus US\$ 288.57

Individuals domiciled will calculate their income tax by applying to their net income the rate according to the following table:

Annual tax scale for employees	
Annual Income	Rate
Up to US\$ 4,064.00	Exempt
US\$ 4,064.01 to US\$ 9,142.86	10% of the amount exceeding US\$4,064.00 plus US \$212.12
US \$ 9,142.87 a US \$22,857.14	20% of the amount exceeding \$9,142.86 plus US \$720.00
US\$22,857.15 and above	30% of the amount exceeding US\$22,857.14 plus US\$3,462.86



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