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The information in this book is current through December 2013, and should only be used for reference.
PwC, the world’s leading professional services firm, helps organizations and individuals create the value they’re looking for. We’re a network of firms with more than 180,000 people in 158 countries who are committed to deliver quality in assurance, tax and advisory services.

PwC Interamericas is a regional entity comprised of seven firms: PwC Panama, PwC Costa Rica, PwC El Salvador, PwC Nicaragua, PwC Honduras, PwC Guatemala and PwC Dominican Republic with more than 30 partners and more than 1,000 professionals of diverse areas.

We work to support our clients by leveraging the knowledge and skills of our local people and professionals through our global network. In this way we strive to provide quality services to all our clients.

A constant display of excellence and technical expertise has positioned PwC Interamericas as the number one in our region, providing our principal lines of services Assurance, Tax and Legal, Advisory and Business Process Outsourcing, which include a wide range of solutions for our clients.
Preface

We are honored to publish the first edition of the PwC El Salvador Doing Business Guide, a book prepared for the assistance of those interested in doing business in El Salvador. This guide will provide you with an overview and insights of the key aspects for starting a business or investing in this country. It covers economic, legal, fiscal, and statutory aspects that will help you understand and evaluate the framework in each particular case. However, we will always invite you to refer to concrete laws, regulations and also to obtain advice when possible. In the last 10 years Central America and the Caribbean have been attracting investors due to their location, human and natural resources as well as the opportunities that are present. This Guide contains materials gathered before March, 2013 and, unless otherwise indicated, is based on information available at that time of writing.

Our Tax & Legal line of service at PwC El Salvador serves the main corporations and clients in the country. I am proud to introduce our Tax & Legal team, which is comprised of highly experienced professionals in various fields: accountants, lawyers, economists, business managers, among others; with extended degrees and masters. This mixture of professionals is what allows us to provide a better and value-added service to our clients and makes us different from our competitors. PwC El Salvador has been an active participant in comparative studies in the region regarding business competition. PwC El Salvador has a trajectory and experience offering a range of services that include internal audits, external audits; accounting advisories, tax consulting, management advisory, business management, due-diligence, information technology and human resources, among others.
Foreword

We are pleased to launch this first edition of the Salvadoran Doing Business Guide 2013, which offers information to investors who wish to carry out business in this country regarding the culture, investment climate and taxation system, including answers to most frequently asked questions, as a result of our cumulative knowledge and experience working with leading companies. We know how important and reassuring it is to find someone you can trust when you arrive at a new location and to receive timely advice on all your issues such as what to do, where to go, and how to do things right, while respecting and understanding the local culture.

Our extensive expertise in mergers and acquisitions has led us to become the preferred advisor for the main business transactions taking place in El Salvador.

At PwC we take great pride in having a team that works hard to differentiate our firm from a crowded marketplace and are truly "Second to None". We enthusiastically strive to make your tax compliance efficient and are genuinely motivated to exceed your expectations on each engagement. PwC is a firm you can trust and rely upon to help solve complex business problems, always acting within our strict code of conduct and independence policies.

We look forward to assisting you in your business endeavors and to help you prosper and succeed while strengthening mutually beneficial relationships.

RAMON ORTEGA
Lead Regional Tax Partner
El Salvador

Geographic background

El Salvador is strategically located in Central America, between the North and South American continents. It is bordered by Guatemala on the west, Honduras on the north, Nicaragua and the Gulf of Fonseca on the east, and the Pacific Ocean on the south.
El Salvador chapters content

Overview of the country
• Geographic and demographic background
• Brief history
• Climate
• Population, form of government, language, currency
• Education

Political and legal system
• Legal framework
• Main political parties

The economy
• Inflation

Doing business
• Government views toward foreign investment
• Free trade agreement and other agreements
• Other free trade zone agreements currently in effect
• Foreign investment
• Establishing a business

Banking system
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• Commercial banks
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Labor and social security
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- Labor law requirements
- Social security

Accounting and audit requirements and practices
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- Statutory audit requirements
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- Accounting profession
- Auditing standards

Tax system
- Other tax regime
- Corporate deduction
- Tax incentives
- Transfer pricing ruling
- Corporate tax compliance
- Individual taxation summary
- Individual deduction
- Individual tax compliance
Overview of the country

Brief history

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 (Provincias Unidas de Centroamérica) was dissolved.

El Salvador achieved notable political stability and economic growth in the 1990’s. In fact, the last five Presidents have been elected democratically, by popular vote.

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:

<table>
<thead>
<tr>
<th>Area</th>
<th>21,040.79 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>6,249,262 (est. 2012)</td>
</tr>
<tr>
<td>Population per km2</td>
<td>295 inhabitants/km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>0.57% (est. 2012)</td>
</tr>
<tr>
<td>Urban population</td>
<td>62.6% (est. 2012)</td>
</tr>
<tr>
<td>Political system</td>
<td>Republican democracy and representatives</td>
</tr>
<tr>
<td>Form of government</td>
<td>Presidential</td>
</tr>
<tr>
<td>Language</td>
<td>Spanish</td>
</tr>
<tr>
<td>Currency</td>
<td>US Dollar (US$)</td>
</tr>
<tr>
<td>Administrative division</td>
<td>262 municipalities grouped in 14 departments</td>
</tr>
<tr>
<td>Religion</td>
<td>Roman Catholic</td>
</tr>
<tr>
<td>Capital city</td>
<td>San Salvador</td>
</tr>
</tbody>
</table>
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 October.

The Ministry of Education regulates all educational institutions and runs the public school system. There is a wide range of private education institutions which are also regulated and must meet certain requirements set by the Ministry of Education.

These institutions are either independent or church-run educational institutions. There are approximately 50 public and private higher education institutions as well as technical educational centers as listed below:

- 24 Universities
- 6 Technological institutes
- 9 Specialized institutes
Most of these institutions offer graduate 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 political and legal structure of El Salvador is composed of three main branches – Legislative, Executive and Judicial – organized as follows:

<table>
<thead>
<tr>
<th>Political and legal framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exercised by the:</strong></td>
</tr>
<tr>
<td>Executive</td>
</tr>
<tr>
<td>The President</td>
</tr>
<tr>
<td>Composed of:</td>
</tr>
<tr>
<td>The President and the ministries council.</td>
</tr>
<tr>
<td>Elected or appointed by:</td>
</tr>
<tr>
<td>The President and Vice-President are elected by direct vote every 5 years</td>
</tr>
</tbody>
</table>

The legal system is based on Napoleonic Code.
Main political parties

- Republican Nationalist Alliance (Alianza Republicana Nacionalista – ARENA).
- Democratic Change (Cambio Democrático - CD).
- 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 (Concertación Nacional – CN).
- Christian Democratic Party (Partido Demócrata Cristiano - PDC).
- Salvadoran Patriot Fraternity (Fraternidad Patriota Salvadoreña - FPS)
- Salvadoran Progressist Party (Partido Salvadoreño Progresista – PSP)

The last presidential elections were held in 2009 and the last congressional and municipal elections were held in 2012.

The economy

El Salvador’s economy has been more exposed to global economic fluctuations and currency risks than other countries in the region, partly due to the US dollar being the legal tender.

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.
El Salvador

<table>
<thead>
<tr>
<th>GDP</th>
<th>2008</th>
<th>2009 (p)</th>
<th>2010 (p)</th>
<th>2011 (p)</th>
<th>2012 (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$ m)</td>
<td>21,431.0</td>
<td>20,661.0</td>
<td>21,418.3</td>
<td>23,139.0</td>
<td>23,864.4</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>1.3</td>
<td>-3.1</td>
<td>1.4</td>
<td>2.2</td>
<td>1.9</td>
</tr>
</tbody>
</table>

**Prices and financial indicators**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009 (p)</th>
<th>2010 (p)</th>
<th>2011 (p)</th>
<th>2012 (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rate SVC:US$ (end-period)</td>
<td>8.75</td>
<td>8.75</td>
<td>8.75</td>
<td>8.75</td>
<td>8.75</td>
</tr>
<tr>
<td>Lending interest rate (avg; %)</td>
<td>7.87</td>
<td>9.31</td>
<td>7.62</td>
<td>5.99</td>
<td>5.60</td>
</tr>
</tbody>
</table>

**Current account (US$ m)**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009 (p)</th>
<th>2010 (p)</th>
<th>2011 (p)</th>
<th>2012 (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade goods balance</td>
<td>(5,176.6)</td>
<td>(3,459.3)</td>
<td>(3,916.9)</td>
<td>(4,656.3)</td>
<td>(4,930.5)</td>
</tr>
<tr>
<td>Goods: exports FOB</td>
<td>4,641.1</td>
<td>4,641.1</td>
<td>3,866.1</td>
<td>4,499.2</td>
<td>5,308.2</td>
</tr>
<tr>
<td>Goods: imports CIF</td>
<td>8,820.6</td>
<td>9,817.7</td>
<td>7,325.4</td>
<td>8,416.2</td>
<td>9,964.5</td>
</tr>
<tr>
<td>Services balance</td>
<td>(141.1)</td>
<td>(213)</td>
<td>(90.1)</td>
<td>(93.9)</td>
<td>(32.9)</td>
</tr>
<tr>
<td>Income balance</td>
<td>(456.3)</td>
<td>(389)</td>
<td>(556)</td>
<td>(550.6)</td>
<td>(632.2)</td>
</tr>
<tr>
<td>Current transfers balance</td>
<td>3,745.6</td>
<td>3,746.6</td>
<td>3,441.8</td>
<td>3,598.6</td>
<td>3,841</td>
</tr>
<tr>
<td>Current-account balance</td>
<td>(1,216.6)</td>
<td>(1,532.2)</td>
<td>(312.2)</td>
<td>(575.9)</td>
<td>(1,070.1)</td>
</tr>
</tbody>
</table>

**Unemployment**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009 (p)</th>
<th>2010 (p)</th>
<th>2011 (p)</th>
<th>2012 (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment (avg.)</td>
<td>6.3</td>
<td>5.9</td>
<td>7.3</td>
<td>7.05</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Sources: Central Bank of El Salvador, www.bcr.gob.sv

**Inflation**

Inflation has been kept low, often registering lower than the US rate. The current inflation rate is 0.8% (November 2013).

Inflation has been contained at a single-digit level, international reserves have accumulated to almost US$1.9 billion and economic growth has averaged 3.5% since the mid 1990’s. Trade has also played an important part in the country’s economic development.
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, and the Law for Reactivation of Exports.

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 interchange of products originating in the member states and a common customs tariff on products imported outside the area.

In recent years El Salvador has been negotiating a trade treaty with the European Union. In 2010, the Salvadoran Economy Ministry announced it was already in the process of reviewing the agreements of association that Central America signed with the European Union in May; but to this date it is still in negotiation.

Moreover, El Salvador has already entered into trade treaties with Mexico, the Dominican Republic, Chile, Panama, Taiwan, Colombia and Cuba. The country is presently negotiating trade treaties with Canada and CARICOM, and is considering treaties with Peru and Israel.
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.

The Salvadoran government has two entities that play a significant role with respect to foreign investments. One of them is the National Agency for the Promotion of Investments in El Salvador (PROESA). PROESA furnishes foreign investors with professional consulting services on the business environment and opportunities for doing business in the country. The other is The National Office of Investments (ONI), an agency of the Ministry of Economy that conducts legal processing of investments and is working on expediting it.

According to the Investments Law, Section 2, foreign investment is understood to be those investments sourced from assets or resources, whether tangible or intangible goods, services or financial instruments in a convertible currency, transferred from abroad by foreign investors. The law also establishes that funds in foreign convertible currencies sent by Salvadorans residing abroad as family aid or for acquisition of property intended for family housing, are not considered foreign investment.

Moreover, the law also defines a foreign investor as a foreign natural person or entity as well as a Salvadorans residing abroad for over one uninterrupted year and undertaking investments in the country.
Section 3 of the investments law specifies that assets or resources considered investment according to Section 2 of that law are as follows:

- Investment of foreign capital for the establishment of business enterprises, or acquisition of all or part of existing commercial enterprises.
- Investment of foreign capital for the acquisition of ownership rights over real property located in the country, as well as the formation of all types of property rights.
- Investment of foreign capital for the acquisition of ownership rights over tangible personal property, especially industrial plants, new and reconditioned machines, spare parts and accessories, raw materials and intermediate products, provided that such goods are used in commercial enterprises in any capacity.
- Subscription or acquisition of shares in companies, as well as those products derived of capital increases through the capitalization of profits, reserves, revaluation of assets or new loans or investments.
- Capital investments from duly registered profits derived from the original investment, used to subscribe or acquire shares in other corporations.
- Loans contracted in foreign currency freely convertible for the productive activities of individuals or corporations.
- Funds destined to the purchase of bonds issued by legal persons domiciled in the country, compliant with the requirements specified in the regulations of this law.
- The internationally accepted intangible assets, which include: intellectual property rights and services, leases of equipment, technical services and contributions of administrative skills.
- The resources destined to the development of sharing agreements or joint ventures in a contractual form, which give foreign investors a form of participation in the industrial, commercial or service sector, in exchange for a share in the total amount of profits.
Restrictions on foreign investment

Section 7 of the Investments Law states that foreign investments shall be limited in the following activities:

• Trade, industry and services in small-scale as well as inshore fishing, under the terms established by law, are the exclusive property of native-born Salvadorans and Central Americans.
• The subsoil belongs to the state, which may grant concessions for 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.
• 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 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.

Establishing business in El Salvador

The Salvadoran Commercial Code that took effect in 1970 and has been modified and supplemented by subsequent legislation regulates commercial activities, including business structures.

Business may be undertaken in the name of individuals and in the name of entities that are granted existence by law as juridical entities. The companies in El Salvador are divided into partnership companies and stock companies, both of which can be of variable capital (C.V.)
**Business structures**

- General Partnership (Sociedad en Nombre Colectivo).
- Limited Liability Company (Sociedad de Responsabilidad Limitada -S.R.L.-).

**Formation procedure**

- Signing a Deed of Incorporation before a Salvadoran Notary Public incorporates the company.
- 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.
- 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.
- 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 Statistics and Census Department (DIGESTYC).

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 not specify a minimum capital, it only 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) 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 Treasury – Internal Tax Office (DGII).
- Statistics and Census Department (DIGESTYC).
- Ministry of Labor.
- Local Municipality.
- Salvadoran Social Security Institute (ISSS).
- Pension Fund Administrator (AFP).

Registration procedure
A branch in El Salvador must be registered with the Salvadoran Registry of Commerce. The following documentation must be filed in the country:

- 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 (“Comprobante de ingreso de divisas”) required to register such investment at the ONI.
**Joint-venture (Sociedades de hecho)**

In El Salvador, joint ventures are considered to be unions between two or more people with the same objective or interest in pursuing a commercial activity.

**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 Central Bank of El Salvador (Banco Central de Reserva- BCR) is the authority responsible for exchange controls. With the enactment of Law No. 746, dated April 12, 1991, the Central Bank is empowered 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 Laundering of Money and Assets No. 498**

Dated December 2, 1998, this law is intended to prevent, detect, punish and eradicate the crime of laundering of money and assets laundering, as well as the withholding of information.
Law for the Insurance Companies No. 844  
Dated October 10, 1996. This law has the objective 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 No. 697  
Dated September 2, 1999; reformed in 2000, 2001, 2002 and 2004. 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 No. 201  
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 and modified in August 17, 2012. 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

Salvadoran
• Banco Azul

Commercial banks
• Banco Promerica
• Banco de America Central
• Banco ProCredit

Foreign banks subsidiaries
• Scotiabank
• Citibank
• Davivienda
• Banco Agricola
• Banco GyT Continental
• First Commercial Bank
• Banco Industrial
• Banco Azteca

Branch of foreign Banks
• Citibank N.A.
## Labor and social security

### Labor supply

Employment statistics, according to the National Office of Statistics and Surveys, are as follows:

#### Economically active population employed by economic activity, 2008-2012

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Total</th>
<th>Agriculture and mines</th>
<th>Industry and transport</th>
<th>Electricity</th>
<th>Construction</th>
<th>Tourism and hotels</th>
<th>Finance</th>
<th>Public sector</th>
<th>Fishing</th>
<th>Teaching</th>
<th>Community Services and health</th>
<th>Domestic Services</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2,349,050</td>
<td>423,248</td>
<td>499,536</td>
<td>11,811</td>
<td>135,249</td>
<td>677,590</td>
<td>117,020</td>
<td>99,410</td>
<td>18,985</td>
<td>77,967</td>
<td>178,847</td>
<td>109,195</td>
<td>192</td>
</tr>
<tr>
<td>2009</td>
<td>2,364,579</td>
<td>473,137</td>
<td>461,721</td>
<td>7,187</td>
<td>119,685</td>
<td>689,935</td>
<td>117,996</td>
<td>99,354</td>
<td>22,225</td>
<td>78,743</td>
<td>181,050</td>
<td>112,354</td>
<td>1,192</td>
</tr>
<tr>
<td>2010</td>
<td>2,398,478</td>
<td>965,758</td>
<td>474,045</td>
<td>11,067</td>
<td>129,038</td>
<td>704,138</td>
<td>128,078</td>
<td>101,075</td>
<td>16,117</td>
<td>77,056</td>
<td>173,535</td>
<td>100,062</td>
<td>704</td>
</tr>
<tr>
<td>2011</td>
<td>2,466,375</td>
<td>515,340</td>
<td>491,283</td>
<td>13,720</td>
<td>127,875</td>
<td>700,451</td>
<td>136,920</td>
<td>107,257</td>
<td>18,163</td>
<td>76,269</td>
<td>175,921</td>
<td>102,510</td>
<td>666</td>
</tr>
<tr>
<td>2012</td>
<td>2,559,315</td>
<td>520,279</td>
<td>507,688</td>
<td>10,921</td>
<td>129,918</td>
<td>734,113</td>
<td>137,588</td>
<td>116,297</td>
<td>18,137</td>
<td>81,379</td>
<td>190,074</td>
<td>112,688</td>
<td>233</td>
</tr>
</tbody>
</table>

#### Economically active population unemployed by economic activity, 2008-2012

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Total</th>
<th>Agriculture and mines</th>
<th>Industry and transport</th>
<th>Electricity</th>
<th>Construction</th>
<th>Tourism and hotels</th>
<th>Finance</th>
<th>Public sector</th>
<th>Fishing</th>
<th>Teaching</th>
<th>Community Services and health</th>
<th>Domestic Services</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>94,849</td>
<td>12,206</td>
<td>19,483</td>
<td>203</td>
<td>18,465</td>
<td>17,019</td>
<td>4,467</td>
<td>904</td>
<td>4,035</td>
<td>2,713</td>
<td>4,035</td>
<td>2,713</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>187,088</td>
<td>51,501</td>
<td>27,126</td>
<td>263</td>
<td>27,454</td>
<td>28,498</td>
<td>10,032</td>
<td>4,549</td>
<td>5,147</td>
<td>4,970</td>
<td>5,147</td>
<td>4,970</td>
<td>-</td>
</tr>
<tr>
<td>2010</td>
<td>181,806</td>
<td>47,060</td>
<td>26,779</td>
<td>346</td>
<td>23,570</td>
<td>27,181</td>
<td>7,278</td>
<td>4,049</td>
<td>6,445</td>
<td>4,004</td>
<td>6,445</td>
<td>4,004</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>174,758</td>
<td>46,925</td>
<td>25,203</td>
<td>169</td>
<td>23,735</td>
<td>30,197</td>
<td>6,657</td>
<td>2,622</td>
<td>5,294</td>
<td>3,802</td>
<td>5,294</td>
<td>3,802</td>
<td>456</td>
</tr>
<tr>
<td>2012</td>
<td>165,439</td>
<td>35,417</td>
<td>25,287</td>
<td>56</td>
<td>24,645</td>
<td>25,877</td>
<td>7,528</td>
<td>4,837</td>
<td>537</td>
<td>2,087</td>
<td>6,945</td>
<td>5,509</td>
<td>32</td>
</tr>
</tbody>
</table>

Labor law requirements

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

Wages and salaries
The government is empowered to set minimum wages. In May 2011, the minimum wage was increased from US$ 6.92 a day to US$7.23, equivalent to US$ 224.20 a month.

Profit sharing
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:
• With more than 1 year but less than 3 years working for the same company, employees receive 10 days of basic salary.
• Workers with more than 3 years but less than 10 years of employment with a company receive 15 days of basic salary.
• For workers with more than 10 years of employment with the same company, the bonus is 18 days of basic salary.

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 each continuously worked year employees are entitled to receive fifteen days of paid vacation.
El Salvador

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
On January 2013 the Constitutional Court issued a resolution in which requires to the Legislative Assembly to regulate the severance payment generated in cases of resignation.

On January 2013 the Constitutional Court issued a resolution which requires the Legislative Assembly to regulate the severance payment generated in cases of resignation.

Technical education tax
A contribution of 1% of total monthly payroll is imposed on employers with more than 10 employees, toward the financing of a program for the technical instruction and training of workers, managed by the National Institute for Professional Training (INSAFORP).

INSAFORP, ensures that the Salvadoran workforce remains a high-quality asset within the region by offering training and other courses for employees.

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% of the monthly salary and the employer grants a 12-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's).
Monthly salary US$ | Rates %
--- | ---
**Social security contribution**
Up to 685.71 | Employer: 7.50  
Employee: 3
**Pension fund (AFP)**
Up to 5,274.52 | Employer: 6.75  
Employee: 6.25
**Payroll tax (for 10 employees and above)**
Up to 685.71 | Employer: 1.00  
Employee: 0

**Accounting and audit requirements and practices**

**Accounting**

On October 7, 2009, the Supervisory Board of Public Accounting and Auditing, issued a resolution whereby, as of January 1, 2011, financial statements of those entities whose shares or debt instruments are not traded in a public market should be prepared based on the International Financial Reporting Standard for small and medium-sized entities (IFRS for SME). Financial statements of entities whose shares or debt instruments are traded in a public market should be prepared based on the International Financial Reporting Standards-Full version (NIIF-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, appointment of an external auditor to verify tax compliance is mandatory for:

- Entities having total assets exceeding US$1,142,857.14.
- Entities with incomes exceeding US$571,428.57.
- 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 and tax audit services.

**Books and records**

Both the Commercial Code and the Tax Code stipulate the principal books of account to be maintained by business enterprises. The books and records normally required are: Daily and General Ledgers, Financial Statements, purchase ledger for VAT purposes, ledger of operations with final consumers and detail of exports, ledger of operations with VAT-registered contributors, as well as other special records and files required for the control of VAT.

These books are authorized by the external auditor, and each page must be numbered and then stamped with the seal of the public accountant.

According to the Commercial Code, all records must be in Spanish, and all accounts recorded in colons or US dollars. The books must be located and the accounting based 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 de la Profesion de Contaduria Publica y Auditoria). Candidates must be Salvadoran and have 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.
**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%.

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 might be, 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 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%.
Income tax on profit distribution

The profits distributed to shareholders, partners, trustees, participants, investors or beneficiaries will be subject to withholdings of 5%.

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

On sweetened soft drinks and simple syrups
This is an ad valorem tax levied at 10% on the selling price to the public as suggested by the manufacturer, importer or distributor, excluding VAT and returnable bottle taxes.

On the production and importation of alcohol and spirits
This tax is levied on domestic or imported alcohol and spirits at rates ranging from 0.0825 and 0.15 on each 1% of alcohol volume per liter or portion thereof. As of the beginning of 2010, spirits and alcohol also have an ad valorem tax levied at 5% on the suggested selling price to the public.

On tobacco products
This tax is levied at USD 0.005 per cigarette, cigar or any other tobacco product. Also, an ad valorem tax is levied at 39% on the suggested consumer selling price reported, excluding items such as VAT taxes.
Value-added tax (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 self-consumption 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.

### 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:

<table>
<thead>
<tr>
<th>Assets Range</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>From US$ 2,000 to US$ 57,150</td>
<td>US$ 91.43</td>
</tr>
<tr>
<td>From US$ 57,151 to US$ 114,286</td>
<td>US$ 137.14</td>
</tr>
<tr>
<td>From US$ 114,287 to US$ 228,572</td>
<td>US$ 228.57</td>
</tr>
<tr>
<td>An additional charge for each office, branch or proprietary agency of a company</td>
<td>US$ 34.29</td>
</tr>
</tbody>
</table>

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 income-generating 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.

**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 declining balance method at the following rates:

<table>
<thead>
<tr>
<th>Type</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>5</td>
</tr>
<tr>
<td>Machinery</td>
<td>20</td>
</tr>
<tr>
<td>Vehicles</td>
<td>25</td>
</tr>
<tr>
<td>Other movable assets</td>
<td>50</td>
</tr>
</tbody>
</table>

**Depletion**
Amortization of new software is admitted at a constant and maximum 25% over purchases or production costs.

**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%.

Payments to domiciled individuals with respect to services rendered other than in 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.

**Tax incentives**

El Salvador offers a wide range of incentives to attract foreign investments and drive new commercial and industrial developments. There are no restrictions on foreign ownership or on mergers, acquisitions or joint ventures. There are three specific laws in El Salvador that seek to encourage foreign investment by improving the country’s competitiveness in all areas involving the granting of tax incentives. These laws are the Industrial and Commercial Free Zone Law, Law of International Services and the Export Reactivation Law, which was replaced in 2011 by the Law of Reimbursement of Tariffs on Importations.
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.
- 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 or bonded warehouse 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 most recently approved Law of International Services 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.

The Export Reactivation Law No. 460 (“Ley de Reactivación de las Exportaciones”) dated March 15, 1990 granted reimbursement of 6% Free On Board (FOB) value of exports to be shipped outside the region. This law was repealed and replaced in January 2011 by a refund mechanism which was approved for duties paid on imported raw materials that were definitively exported out of the country.

**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 established 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 March 23, 2012, the Dirección General de Impuestos Internos ("DGII") issued the "Guía de Orientación N° DG 001/2012" 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. Guía de Orientación N° DG 001/2012 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").

**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:

- Internal Revenue Service ("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.
- Customs Authorities ("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 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

The monthly withholding tax scale for employees is shown below:

<table>
<thead>
<tr>
<th>Monthly salary</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to US$ 487.60</td>
<td>Exempt</td>
</tr>
<tr>
<td>From US$ 487.61 to US$ 642.85</td>
<td>10% over US$ 487.60 plus US$ 17.48</td>
</tr>
<tr>
<td>From US$ 642.86 to US$ 915.81</td>
<td>10% over US$ 642.85 plus US$ 32.70</td>
</tr>
<tr>
<td>From US$ 915.82 to US$ 2,058.67</td>
<td>20% over US$ 915.81 plus US$ 60.00</td>
</tr>
<tr>
<td>From US$ 2,058.68 and above</td>
<td>30% over US$ 2,058.67 plus US$ 288.57</td>
</tr>
</tbody>
</table>

The annual tax rates on individual income are shown below:
The tax resulting from the application of the tax rates below may in no case exceed 25% of an individual’s net income in each fiscal year.

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to US$ 4,064.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>US$ 4,064 to US$ 9,142.86</td>
<td>10% of the amount exceeding US$ 4,064 + US$ 212.12</td>
</tr>
<tr>
<td>US$ 9,142.87 to US$ 22,857.14</td>
<td>20% of the amount exceeding US$ 9,142.87 + US$ 720</td>
</tr>
<tr>
<td>US$ 22,857.15 and above</td>
<td>30% of the amount exceeding 22,857.15 + US$ 3,462.86</td>
</tr>
</tbody>
</table>
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