

DOING BUSINESS IN EL SALVADOR

FOREWORD

This guide has been prepared with the purpose of providing basic information to people interested in investing and doing business in El Salvador. It does not cover in detail all the requirements and subjects to be considered, but instead it is intended to provide an overall idea of the benefits of doing business in El Salvador and the basic taxation requirements.

The guide is intended to be used for informational purposes only and therefore, you should consult a professional tax and business advisor to acquire more information.

The material contained in this guide is based on information and regulations in effect as of May 2020.





ABOUT H&CO

Since 1992, H&CO has been providing international tax and business advisory services to multinational companies, global families and local companies that seek to invest or expand their operations in multiple jurisdictions in Latin America.

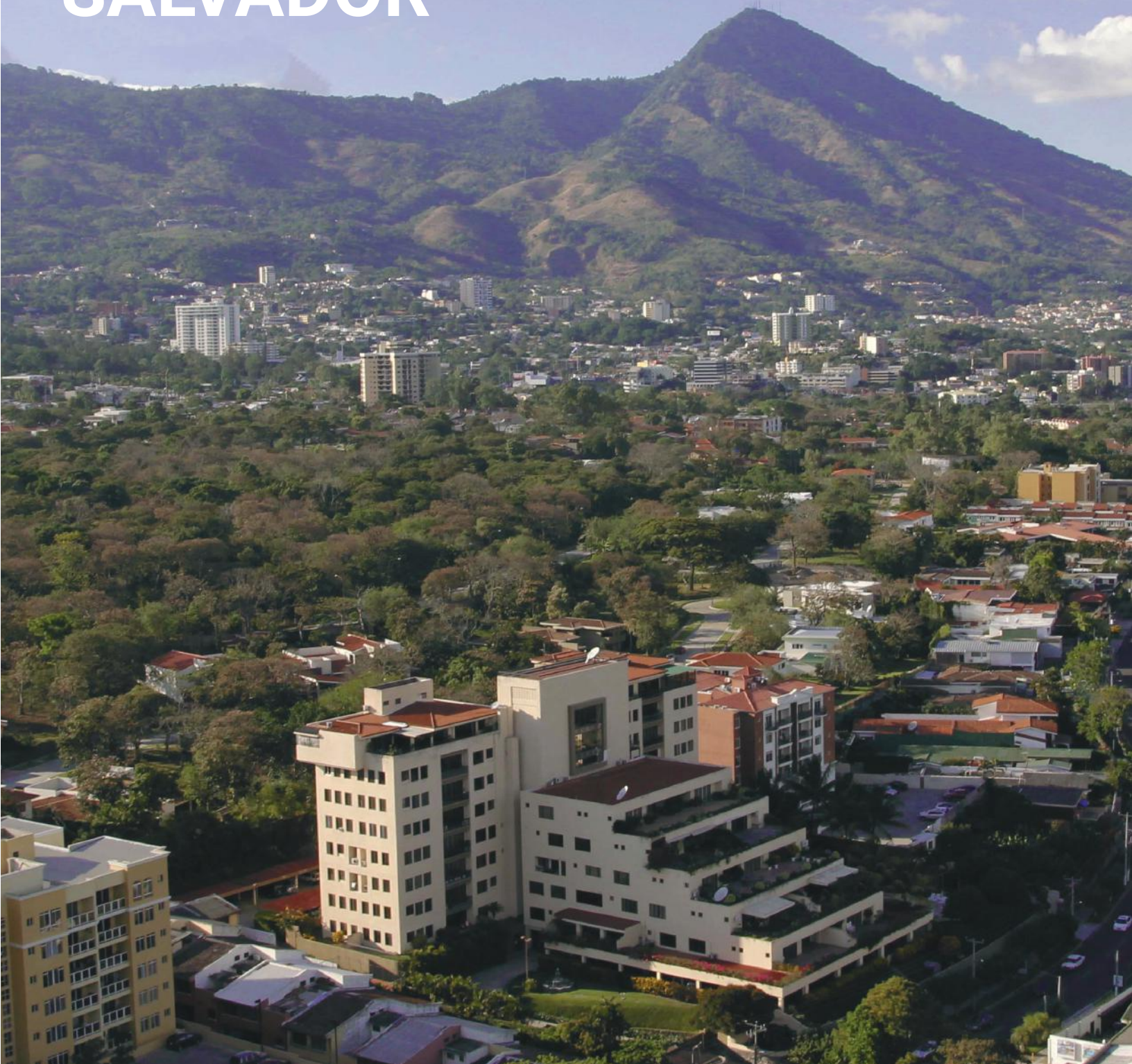
By working together with our affiliates in the region, we offer integrated solutions to help companies with all of their cross-border requirements and reporting obligations, from opening a new company abroad, and manage your operations, to helping you create an international tax strategy and repatriation plan.

With 3 offices throughout South Florida and partner firms in more than 15 countries in South and Central America, H&CO's primary goal is to be the most trusted service provider of accounting, tax and consulting services for the global community.

COUNTRY ESSENTIALS

| | |
|----------------------------|---|
| Capital City | San Salvador |
| Area and population | 21,041 km ² and a population of 6,481,102 people (July 2020 est.) |
| Language | Spanish |
| Currency | USD \$ |
| International calling code | +503 |
| GPD | \$26.1 billion USD (2018 est.) |
| GDP - per capita (PPP) | \$3,922 USD (2018 est.) |
| Exports | \$5.9 billion USD (2019 est.) |
| Imports | \$12 billion USD (2019 est.) |
| Inflation rate | 0.4% (2018 est.) |
| Government structure | El Salvador is a country with a pluralistic political system. The fundamental organs are the Legislative, the Executive and the Judicial. |

WHY YOU SHOULD DO BUSINESS IN EL SALVADOR



STRATEGIC GEOGRAPHIC LOCATION

El Salvador is located in Central America where it borders Guatemala, Honduras, the Gulf of Fonseca and the Pacific Ocean.

El Salvador's geographic location proposes a strategic position for manufacturing companies seeking short response times to satisfy customer demand in the region. The country's modern port and airport infrastructure allows companies to carry out their logistics procedures efficiently.

In the area of international services (offshoring and outsourcing), the location of El Salvador is strategic, since it shares the same time zone as the central zone of the United States (CST, GMT -6), allowing the country to be an ideal location for providing remote business services and maintenance of commercial aircraft.

ESTABLE CURRENCY AND ECONOMY

El Salvador is a free, stable, and export-oriented economy. It has registered increasing investment flows around 38%, mainly focused on the manufacturing, finance and insurance, commerce, and information and communications sectors.

The country dollarized its economy in 2001, which is why El Salvador offers greater certainty and monetary stability to investors as a result of the elimination of exchange rate risk, as well as low inflation.

According to the International Monetary Fund, El Salvador has the lowest average inflation rate in Latin America (2014 - 2019) with 1.3%, followed by Panama (2.4%), Ecuador (2.4%) and Peru (2.9%).



FREE TRADE AGREEMENTS

El Salvador has significant competitive advantages for companies looking to establish in the country, including the speed of response and geographical proximity, which is complemented by free trade agreements that give access to an important market of clients.

The free trade agreements that El Salvador has signed with various countries allow access to a potential market of 1.2 billion clients around the world. The country has trade agreements with Bolivia, Central America, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, South Korea, Trinidad and Tobago, the Dominican Republic, the United States, the European Union, and Venezuela.



MEMBER OF THE CAFTA-DR TREATY

Under the Free Trade Agreement of Central America and the United States (CAFTA-DR), most fees and other barriers are removed for U.S. goods destined for Central America. Additionally, CAFTA-DR provides protection for investments and intellectual property of the United States and creates a more transparent framework for conducting business. The treaty also seeks to eliminate tariffs in Central America and facilitate increased trade, benefiting U.S. manufacturing companies in El Salvador.

With the implementation of CAFTA-DR, approximately 80% of goods from the United States can enter duty free. Bilateral trade within the CAFTA-DR trade area amounts to 32 billion dollars annually.

PRODUCTIVE LABOR FORCE

El Salvador's labor force is made up of over 3 million workers of which 55% are less than 40 years old. This makes the country's workforce highly productive and capable of developing new skills in a short time, ideal for manufacturing, agribusiness and service activities.

Today, the Salvadoran workforce is internationally recognized for its industriousness, efficiency and work ethic. Investors established in the country rank it as one of the most outstanding in the world.

Salvadoran professionals are ready to enter the booming sectors of the country, annually there are about 24,000 new technicians and professionals who enter the labor market. El Salvador has 40 technical and higher education institutions: universities, specialized and technical institutes.

TAXATION





CORPORATE TAXES

Corporate income tax is levied on income derived worldwide by corporations and business entities resident in El Salvador, and on income derived from Salvadoran sources by non-resident entities.

Residents and non-residents are taxed at a base rate of 30%.

TAXES ON CAPITAL GAINS AND DIVIDENDS

There is an ordinary tax rate of 10% on capital gains.

Currently, the withholding tax on dividends is 5%. For non-residents, the rate may increase to 25% if the recipient is located in a tax haven or jurisdiction with a preferential tax regime (i.e. low or no tax regime).

ESTATE AND GIFT TAXES

Successions and donations are exempt from taxes in El Salvador.

SALES TAXES / VAT

A sales tax is levied on the sale of goods, provision of services and imports at a rate of 13%.

EMPLOYMENT TAXES

Withholdings on income derived from employment are applied according to the following rates of contribution:

| | Employee | Employer |
|------------------------|----------|----------|
| Social Security (INSS) | 3.00% | 7.50% |
| Pension funds | 7.25% | 7.75% |

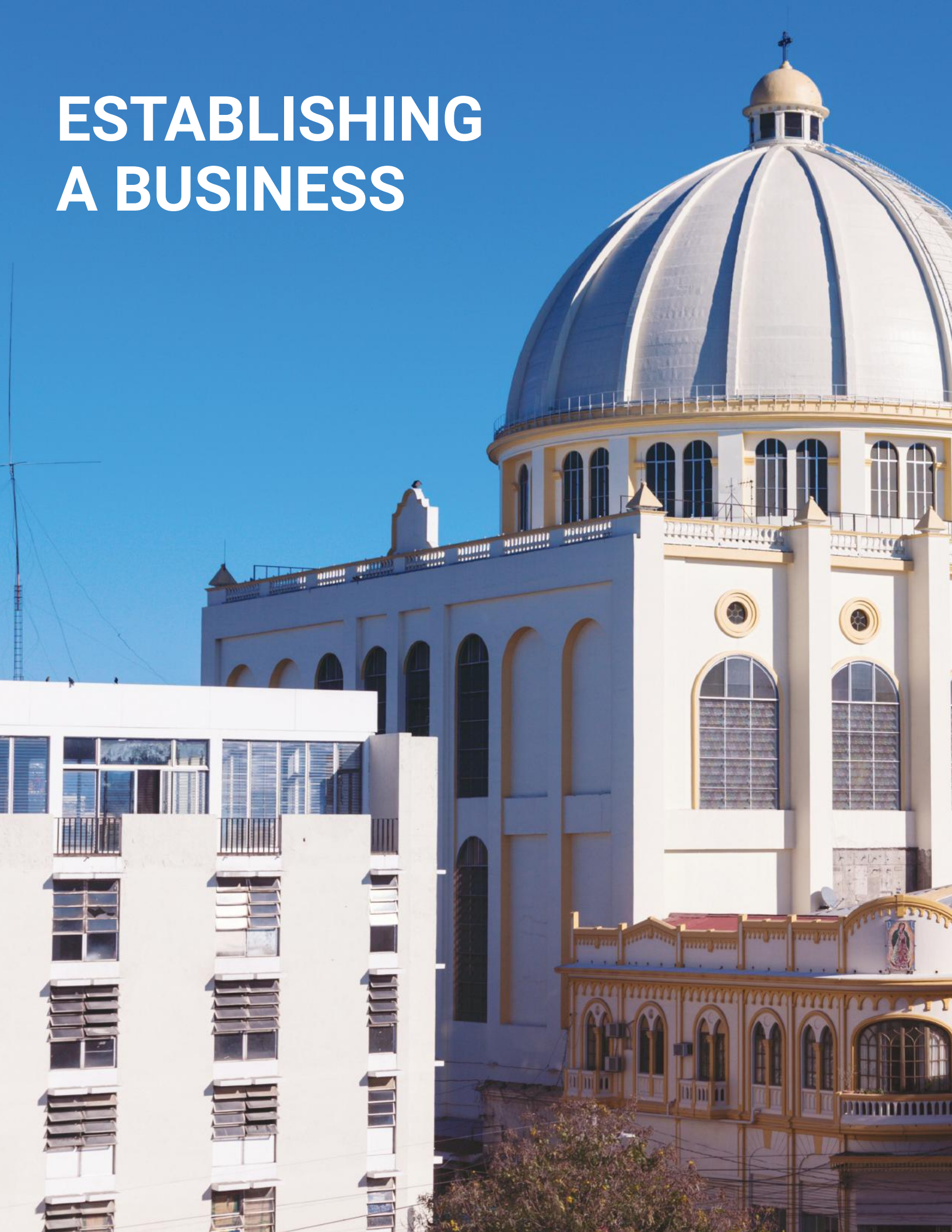
PERSONAL TAXES

Individual income tax rates are progressive and range from 10% to 30%. Non-residents pay taxes through withholding at rates of 20% or 25%, or at reduced rates for Salvadoran income earned for certain types of services.

TRANSFER TAXES

In each real estate sale, the individual or selling entity is required to pay a tax of 3% on the surplus of US \$ 28,571.93.

ESTABLISHING A BUSINESS



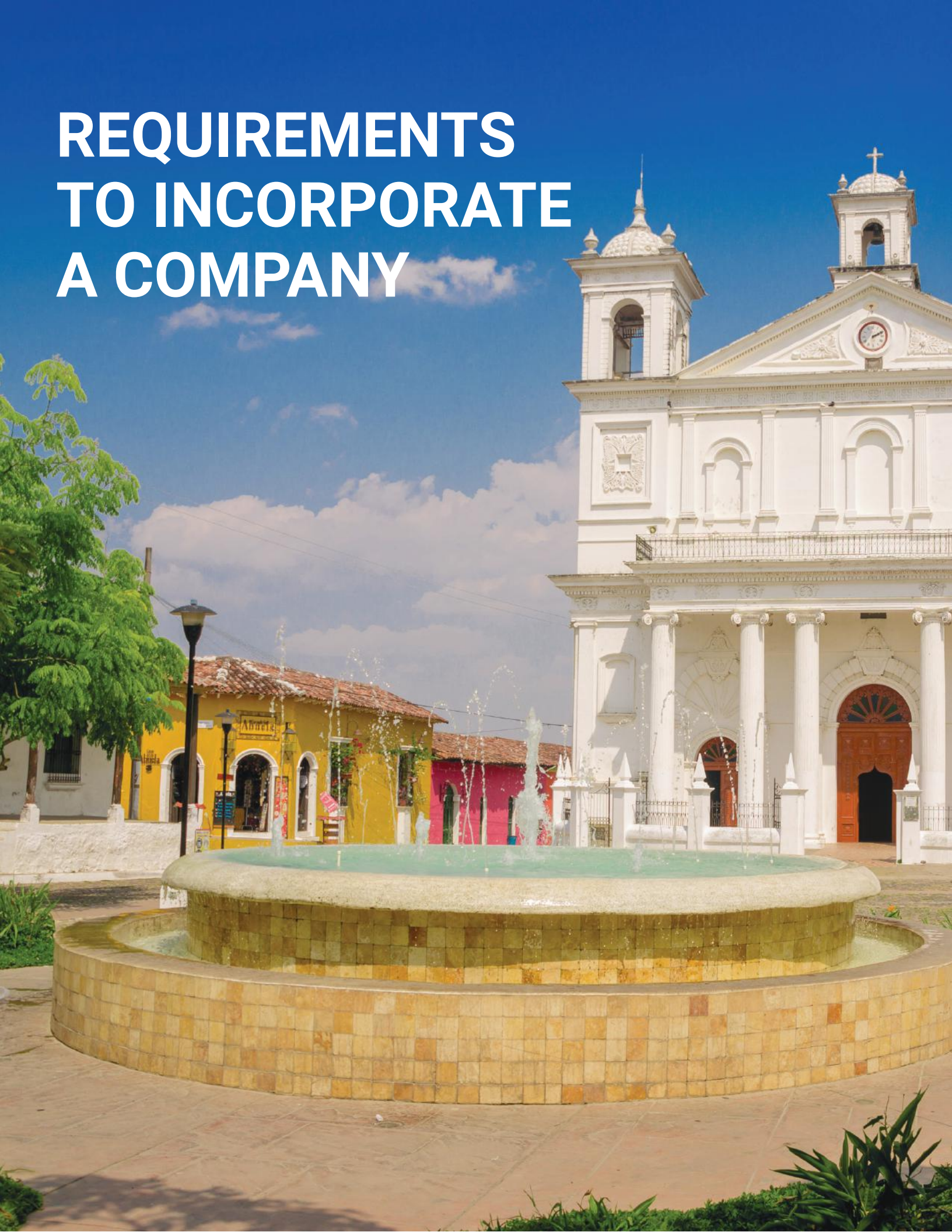
PROCESS TO INCORPORATE A COMPANY

An investor aiming to establish a business entity in El Salvador requires compliance with 9 procedures over an average of 16.5 days, a much shorter average than the 28.8 days average for the rest of Latin America and the Caribbean.

| PROCEDURES | TIME TO COMPLETE |
|---|---------------------------------------|
| Deposit the legally required initial capital in a bank account and obtain a deposit evidence or a certified check | 1 day |
| Verify the availability of the company name | Less than 1 day (online procedure) |
| Notarize the articles of association | 1 day |
| * Pay the required registration fees at a local bank | 1 day |
| Register the company and obtain the publication and legalization of books | 3 days |
| Legalize the company books by an auditor | 10 days |
| * Register employees with either of the two Pension Fund Administrators | 3 days |
| * Register the company for local taxes at the Municipality | 1 day |
| * Create a company seal | 2 days |
| Total number of days | 16.5 days |

Note: Steps marked with an asterisk () may be completed simultaneously.*

REQUIREMENTS TO INCORPORATE A COMPANY





The *Sociedades Anónimas de Capital Variable* (S.A. de C.V.) are the most commonly accepted forms in El Salvador.

COMPANY NAME

Salvadoran law requires corporate names to be unique, so it is mandatory to identify the name of the company and ensure that there is no other company with that name.

SHAREHOLDERS

A Limited Liability Company registered in El Salvador must have a minimum of two shareholders, who must present their Unique Identification Document (DUI) or in the case of foreigners their residence card or passport, in addition to the Tax Identification Number.

MINIMUM CAPITAL

The minimum amount of share capital is USD 2,000.00 for both residents and foreigners, of which USD 100.00 (or 5% of the minimum capital required), must be paid with a certified check from a Salvadoran Bank in the name of the new company.

MARKET OPPORTUNITIES AND COMMERCIAL SECTORS





TEXTILE INDUSTRY

El Salvador is positioned as one of the most attractive textile and apparel centers to invest in Latin America due to its proximity to large consumer markets in North and South America, its integrated value chain and its competitive human capital in costs and production.

Being the textile industry one of the main engines for the development in the country, the industry's integration process has managed to incorporate all the activities of the textile and apparel production chain; from the production of fibers, the creation and finishing of yarns and fabrics; garment design, tailoring and manufacturing to all associated logistics.

El Salvador exports textiles and apparel to more than 50 countries. According to data from the Office of Textiles and Apparel (OTEXA), El Salvador is the ninth largest supplier of apparel products to the United States. In addition, the country benefits from tax exemption for clothing manufactured with regional fabric (woven) that uses fabrics made in the United States, Central America or the Dominican Republic, thanks to rule of origin "Yarn Forward" provision that exists in the CAFTA-DR agreement.



REMOTE BUSINESS SERVICES

As one of the most profitable platforms in Central America for quality outsourcing services, El Salvador has an innovative telecommunications infrastructure through which it's possible to deliver service solutions in various regions and delivery models.

The remote business services industry in El Salvador has experienced unprecedented growth. Today, the country is home to many internationally renowned companies, generating more than 16,000 direct jobs, 11,000 workstations and represents more than 55 local and foreign companies.

The country has an International Services Law that provides tax incentives to companies engaged in providing services to foreign customers. Companies established in service parks or service centers can enjoy the benefits of total exemptions from municipal and income tax, and exemption from customs duties and other taxes on the import of equipment, machinery, parts, accessories and other necessary assets for the execution of the incentivized activity.



TOURISM

El Salvador has a promising hotel, gastronomic and shopping offering, including outstanding road connectivity and proximity between multiple tourist attractions.

In the medical tourism sector, the country is considered the ideal destination for the establishment of specialized hospitals and clinics, to care for patients residing in the United States and Canada.

Salvadoran legislation indicates that a company, with a minimum investment of USD 25,000, may qualify to be classified as a tourist project of national interest and opt for benefits such as total exemptions from the real estate transfer tax for the acquisition of real estate that will be destined to the project, exemption from income taxes, and partial exemption from municipal taxes, among others.





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