



DOING BUSINESS
EL SALVADOR



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02 About BLP



■ About BLP



In 2003, a group of Central American lawyers wanted to revolutionize the legal market and founded a firm focused on the development of client businesses through the assistance of practical legal advice. On this basis, BLP recruits the best talent in the region and thanks to the preferences of its clients has grown to become one of the most recognized firms in the region with offices in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and a representative office in Madrid.

BLP has been recognized on numerous occasions as one of the outstanding law firms in Central America. Such stature has been validated by distinguished publications such as Latin Lawyer 250, Chambers & Partners and International Financial Law Review, Strategy & Business, as well as the referral of the firm to foreign investors by the United States Commercial Service.

BLP is a member of and actively participates in the most recognized international professional networks in the legal field, which demonstrates that the firm provides a global service to its clients, ensuring compliance with the highest standards of legal services recognized anywhere in the world. Our goal is to help you do business in the region easily and safely. This document is the starting point for a series of guides designed for that purpose.



03

About El Salvador



■ About El Salvador



Official Name:

Republic of El Salvador

Capital:

San Salvador

Main cities:

San Salvador, San Miguel and Santa Ana

Form of Government:

Presidential Republic



Area: 21,041 Km²



Official language: Spanish



Population: 6,486,201

GDP per capita: \$3,799



Official currency: US dollar

Exchange rate parity with the annual average USD

the US dollar circulates freely in the country



Fiscal year: Calendar year



Banking soundness



Monetary stability



Strategic location



Provinces



Renewable energy production through hydroelectric power and geothermal development



Communications and connectivity

Competitive advantages of investing in El Salvador

Exports: \$5.03 billion

Principal export markets:

The US, Central America (Guatemala, Honduras, Nicaragua, Costa Rica).

Principal exports:

- Clothing
- Sugar
- Plastic products
- Capacitors
- Integrated circuits
- Coffee

Free Trade Agreements

- **Central America - United Kingdom**
- **Central America - Korea**
- **Central America - European Union**
Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama
- **Central America - Mexico**
Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua
- **Northern Triangle - Colombia**
El Salvador, Guatemala and Honduras
- **Taiwan (Republic of China)**
- **Honduras**
- **CAFTA-DR**
Central America - United States - Dominican Republic
- **Central America - Panama**
Costa Rica, Guatemala, El Salvador, Honduras and Nicaragua
- **Central America - Chile**
Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua
- **Central America - Dominican Republic**
Costa Rica, El Salvador, Guatemala, Honduras

Existing trade agreements

- **Multilateral agreements**
World Trade Organization

Customs unions

- **Central American Common Market (CACM)**

Preferential Trade Agreement

- **Venezuela (AAP.A25TM N° 27)**

Acuerdos bilaterales de Inversión

- | | |
|-------------------------|-------------------------|
| ● Argentina | ● Netherlands |
| ● Belgium | ● Nicaragua |
| ● Luxembourg | ● Paraguay |
| ● Belize | ● Peru |
| ● Chile | ● Spain |
| ● Czech Republic | ● Switzerland |
| ● Finland | ● Taiwan |
| ● France | ● United Kingdom |
| ● Germany | ● United States |
| ● Israel | ● Uruguay |
| ● Morocco | |

■ How to start a business in El Salvador?

The following are the main steps to start operations in El Salvador:

01 *Getting started*

Choose the type of company or form of incorporation to structure the business. For more information, see Getting started.

02 *Tax System*

Register your company as a local taxpayer. For more relevant information see Tax System.

03 *Real Estate*

Choose the facilities to operate your business, see Real Estate.

04 *Special Permits and Authorizations*

Obtain the corresponding permits for your activity and if applicable, apply for Free Trade Zone benefits, For more information, see Special Permits and Authorizations.

05 *Labor*

Register the company as an employer before the Salvadoran Institute of Social Security, the Ministry of Labor, and the Pension Fund Administrators. For more information, see Labor.

06 *Intellectual Property*

Register and protect any intellectual property required for the operation. For more information, see Intellectual Property.

06 *Getting started*



1. Getting started

In El Salvador, the principle of "Economic Freedom" applies; natural and legal persons, national or foreign, decide their form of organization and receive the same rights and guarantees.

- **Local company formations**

The two most common business formations under the laws of El Salvador are the Sociedad Anónima (S.A), and the Sociedad de Responsabilidad Limitada (S.R.L.), whose main characteristics are:

- **Sociedad Anónima (S.A.)**

The S.A. is the most common business form in the country without prejudice to other permitted corporate structures. The S.A. is equivalent to a corporation and is characterized by having a common fund and creating responsibility for its shareholders up to the amount of their contributions. The share capital is nominally represented in shares that can be freely transferred. The minimum amount required to establish the S.A. is \$2,000, with only 5% of such amount payable for its incorporation. The S.A. must have a Board of Directors or a single administrator and a legal representative, as well as an El Salvador domicile. Since there is no maximum term of validity, the validity of the S.A. is indefinite.

- **Sociedad de Responsabilidad Limitada (S.R.L.)**

Alternatively, a Limited Liability Company (S.R.L.) may be formed, which has similar requirements to those of the S.A., limiting social responsibility to the assets of its shareholders. This type of society contemplates the status of the people involved.

- **Branches**

Foreign companies, complying with the requirements of the law, may conduct business in El Salvador through branches of their parent company that function as an authorized extension to develop trade within the country. The branch must be registered with the Foreign Investment Registry of the Ministry of Economy and the Trade Registry. The branch must have a minimum investment of \$12,000.

- **Dissolution or Liquidation**

Any agreement of the partners to dissolve the company must be definite to proceed with the liquidation complying with all the requirements and obligations established in the law. Such a process utilizes the minutes of the general meeting of shareholders and the dissolution agreement must be registered with the Trade Registry for which tax solvency is required, which will activate an audit process. Once the solvency has been obtained and the agreements registered, the liquidation will proceed. This process may take up to two years.

- **Trusts**

In El Salvador, Trust Agreements are used by commercial entities and individuals to manage their business and personal interests; they can serve as collateral. Only banks can manage a trust.

- **Inclusion of cryptocurrency**

In 2021, Bitcoin was introduced as a currency of national circulation in order to boost the economy and attract foreign investment. El Salvador regulates and recognizes bitcoin as a legal tender and provides the general framework for its implementation and use. Bitcoin has unrestricted payment effects and unlimited transactional use, without prejudice to

the fact that the US dollar coexists with Bitcoin as legal tender in El Salvador. El Salvador has become the first country in the world to recognize bitcoin as legal tender and to create a legal framework for its implementation in the economy, providing unique investment opportunities for bitcoin investors and service providers.

08

Tax system



2. Tax system

Territoriality

El Salvador's tax system is based on principles of territoriality whereby only income generated in the territory and from a Salvadoran source is subject to income tax. The following are considered taxable income:

- *Income derived from goods (e.g. purchase or sale) or investments within the territory*
- *Services provided within El Salvador*
- *Income derived from intellectual property rights*
- *Income derived from securities in cases determined by law.*
As a result of this principle, any income obtained from foreign sources will not be considered part of the gross income.

Main Taxes relevant to doing business

- *Income derived from goods (e.g. purchase or sale) or investments within the territory;*
- *Services provided within El Salvador*
- *Income derived from intellectual property rights*
- *Income derived from securities in cases determined by law*



Main taxes

doing business

Tax rates

Businesses pay a flat fee of 25 or 30 percent, depending on the amount of income:

INCOME	TAX RATE
<i>Up to \$150,000</i>	<i>Fixed rate of 25%</i>
<i>More than \$150,000</i>	<i>Fixed rate of 30%</i>

For individuals, Salvadoran legislation establishes different payment schemes depending on the applicable income tax rate.

INCOME	TAX RATE
<i>Up to \$4,064.00</i>	<i>Exempt</i>
<i>\$4,064.00 - \$9,142.86</i>	<i>10%</i>
<i>\$9,142.86 - \$22,857.14</i>	<i>20%</i>
<i>More than \$22,857.14</i>	<i>30%</i>

The proceeds from the sale of tangible property to taxpayers who do not sell these assets are considered “capital gain” which is part of the income tax calculation. In El Salvador, the regulations provide for the possibility of deducting the costs and expenses related to the commercial activity that generates the taxable income. Services provided in El Salvador by foreign entities or goods and services purchased from foreign suppliers are subject to a 20% tax withholding. The distribution of dividends made by Salvadoran companies to their shareholders domiciled or not in El Salvador shall be subject to a tax or withholding of 5%.

- **Value Added Tax (VAT)**

VAT is levied on the aggregate value of the good or service. The VAT rate is 13%. In the case of large taxpayers, they must withhold 1% of the price they receive from small and medium taxpayers, as an advance on VAT, as well as 1% when they acquire personal property or when they are service providers of other taxpayers.

- **Municipal Taxes**

Each municipality must specifically establish the activities or matters to be taxed and the conditions that apply.

- **Special Contribution for Citizen Security and Coexistence (Telecommunications Tax)**

This special contribution taxes the purchase and use of telecommunication services, regardless of the technological means used for this purpose, as well as the transfer of any type of technological device that allows the use of telecommunication services. This special contribution tax is 5% of the cost of such operations with telecommunications, television, internet service providers, and sellers of related items and devices, which act as withholding agents of this contribution.

- **Transfer pricing regulations**

The transfer pricing system ensures that controlled (or related) entities within a company must comply with transfer pricing guidelines and market guidelines. Taxpayers that carry out operations with related or controlled entities, or with entities located in tax havens, according to the list published by the Tax Authorities, must file an annual report with the Tax Administration when such operations exceed \$571,429.00.



11 Real Estate



3. Real Estate

When establishing a business in El Salvador with physical facilities, several alternatives should be considered: (i) leasing a property with facilities; (ii) acquisition of a property with facilities; (iii) acquisition and construction of facilities. It should always be verified that the property, the area where it is located, and the use of the permitted land accord with the needs of the business. Here are some important considerations:

- **Lease of the facilities to operate**

The main point is to verify that the area where the property is located allows you to operate your business. In El Salvador leasing is regulated by the Code. It is advisable to have a written contract that reflects the terms and conditions of the lease.

- **Purchase of the facilities to operate**

Before making any investment in real estate, it is recommended to conduct due diligence on the property, including title, encumbrances, easements, notations and limitations, permitted use and applicable restrictions, availability of utilities, and any other requirements that the operation of the business may warrant. While the due diligence is being performed, it is customary to enter into an option or promise to purchase the property with the seller.

The direct purchase of the property will be materialized through the execution of a public deed of sale before a Salvadoran notary, which will later be registered in the Property, Real Estate and Mortgage Registry of El Salvador. A real estate transfer tax equivalent to 3% of the price will be paid on any excess over \$28,571.43.

- **Construction of the facilities to operate the business**

In El Salvador, the local governments (municipalities) are the competent ones to grant construction permits, for which the interested party must preliminarily process other permits and/or licenses that the type of construction requires. In general, before obtaining a construction permit from the corresponding municipality, approval must be obtained from the Ministerio de Obras Públicas (Ministry of Public Works). Other authorizations may be required depending on the type of business.

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Special Permits and Authorizations



4. Special Permits and Authorizations

- **Free Zone Law**

El Salvador offers several tax incentives to export-oriented manufacturing companies when they are located in free zones or warehouses for inward processing. Some of the benefits that investors can enjoy are:

- Full exemption from customs duties and other taxes for the importation of (i) machinery and equipment used for production; (ii) raw materials and other goods used for production; (iii) lubricants, fuel, and other substances used for production.

- Full income tax exemption for 10 to 15 years, depending on the activity.

- **International Service Law**

As a general rule, all service activities must be export-oriented, with the understanding that the service will be destined or provided to a customer domiciled outside the local territory. The benefits contemplated are: (i) total exemption from customs duties and other taxes on the

importation of machinery, equipment, tools, spare parts, accessories, furniture and office equipment, and all goods necessary for the development of the activity that is subject to the incentive. (ii) Exemption from Income Tax, exclusively for the income generated from the activity with the incentive, during the period in which the operations are carried out in the country. (iii) Exemption from payment of municipal taxes on the assets of the company, during the period in which the operations are carried out in the country from the beginning of the operations.

This benefit may be received for the following services:

- *International distribution*
- *International logistics operations*
- *International call centers*
- *Information technology*
- *Research and development*
- *Repair and maintenance of marine vessels*
- *Aircraft repair and maintenance*
- *Business processes*
- *Medical and hospital services*
- *International financial services*

● **Renewable Energy**

Developments of hydro, geothermal, wind, solar, marine, biogas, and biomass power generation projects may benefit from the following tax incentives:

- *Full exemption from customs duties for machinery, equipment, materials, and supplies with the exclusive intent to build or expand power plants for 10 years.*
- *Full income tax exemption when profits come directly from renewable energy generation. Projects generating more than 10 megawatts will be exempt for 5 years while projects generating 10 megawatts or less will be exempt for 10 years.*
- *The sale of Emission Reduction Certificates is completely tax exempt.*

- Geothermal plants are allowed to take income tax deductions over 10 years for costs and expenses of such activities strictly related to the reinjection of geothermal resources. Some restrictions apply.

● **Registration of Financial Entities Domiciled Abroad before the Central Reserve Bank of El Salvador**

Financial entities not domiciled in El Salvador that intend to grant credits to persons domiciled in El Salvador may choose to register before the Central Reserve Bank to obtain an exemption in the withholding of income tax and VAT on the interest of the credit.

● **Foreign Investment Law**

Foreign investors shall be guaranteed the transfer abroad of their funds related to their investment without delay and prior convertibility into foreign currency. For this purpose, the investment must be registered with the National Investment Office of the Ministry of Economy.

An aerial night view of a city with a large, illuminated domed building, likely a cathedral or government building, as the central focus. The city lights and hills in the background are visible under a dark sky.

16] ***Labor***



5. Labor

All labor establishments in El Salvador require authorization from the Ministry of Labor, and if the company will employ workers, it must register with the Salvadoran Institute of Social Security and the Pension Fund Administrators.

El Salvador has three main types of labor contracts that are regulated and apply to each employment opportunity based on their duration: (i) permanent contracts; (ii) contracts with a fixed term; and (iii) contracts that are based on the work to be performed.

- **Working days**

There are 2 basic workdays in El Salvador:

- The day shift occurs between 6:00 am and 7:00 pm and cannot exceed 8 hours per day and 44 hours per week.
- The night shift can be between 7:00 pm and 6:00 am the following day and cannot exceed 7 hours per day and 39 hours per week. Workdays that last more than 4 night hours per day are considered a night shift for duration purposes.

- **Termination of Employment**

Employment contracts may be terminated with or without liability for the parties, depending on the circumstances leading to the termination. If a labor relationship is terminated by the employer without a justified cause included in the Labor Code, the employer is liable for such termination and must pay severance pay.

- **Wages**

A minimum monthly salary is established, which currently stands at \$365 in the commercial and industrial sector, except for textile manufacturing industries, where the minimum monthly salary is set at \$354.36. It is mandatorily reviewed every 3 years.

- **Days off, holidays, and vacations**

After one year of service, employees are entitled to 15 paid vacation days. These days are remunerated by a base salary plus 30 percent and must be paid before the employee leaves for vacation.

All employees are entitled to an annual bonus (called Aguinaldo) that is payable in December of each year and varies from 15 to 21 days' salary depending on the employee's seniority.

- **Occupational Health**

Companies must comply with the provisions of the General Law for the Prevention of Risks in the Workplace. All employers with more than 15 employees or operating in hazardous work are required to have an occupational risk prevention management program and an occupational health and safety committee. The Ministry of Labor and Social Security is in charge of supervising compliance with this law and has the authority to carry out inspections in workplaces.

- **Social Security and Pensions**

Employers are required to register with the Salvadoran Social Security Institute and pay the corresponding contribution to their employees. Employees must contribute 3% of their salary and employers must contribute 7.5% of their entire payroll. In addition, employees have the right to be enrolled in a pension fund administrator, to which employees

contribute 7.25% of their salary and employers contribute 7.75% of their entire payroll. Employers with 100 or more employees must contribute 1% of the entire payroll to the Instituto Salvadoreño de Formación Profesional (Salvadoran Professional Training Institute).

18] *Intellectual Property*



6. Intellectual Property

In El Salvador, intellectual property is regulated and protected. It is classified into three categories: patents, trademarks, and copyrights. These rights must be governed by the Constitution, the Law of Development and Protection of Intellectual Property, the Law of Trademarks and other Marks, as well as by international agreements signed by El Salvador, such as the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Law Treaty, the Trademark Law Treaty, the Nice Treaty regarding the International Classification of Goods and Services for the Registration of Marks, and others.

The law permits a rights owner to register and defend trademarks, trade names, advertising signs, slogans, literary works, copyrights, patents, utility models, industrial designs, undisclosed information, and in general, any intellectual property asset employed by a company. Many of these assets require a local registration for their protection, so it is necessary to analyze them from the moment the local business or operation is started.



*According to our Sustainability efforts
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