



Tax Incentives and Benefits in El Salvador

Law	Beneficiaries	Activities	Incentives
Industrial Free Trade Zones and Commercialization Law p. 5	Developers, managers and users of free zones Warehouses for asset improvement	Manufacture of goods, fishing for industrial transformation, flora or unprocessed food, amphibians and reptiles, ethyl alcohol dehydration, manufacture of products using alcohols for pharmaceutical or cosmetic use, aquaculture, food and animal feed	Exemption from customs duties VAT exemption Income tax exemption City taxes exemption
International Services Law p. 12	Developers, administrators and users of service parks Operate in service centers	International distribution, international logistics operations, 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, container repair and maintenance, technology equipment repair, elderly and convalescent care, telemedicine, cinematography, specialized aircraft services	Total exemption of customs duties and other taxes on imports of goods necessary for executing the activity Income tax exemption City taxes exemption
Law for the Promotion of Innovation and Technology Manufacturing p. 16	Individuals or legal entities that carry out commercial activities in the established areas.	Programming, management, maintenance, consulting and analysis of computer systems or software, development and commercialization of cloud computing and data streaming services, artificial intelligence, massive data analysis, distributed logging technology, cybersecurity solutions, quantum computing, engineering and technologies for integrating basic industrial technologies into global production chains, systems engineering and technologies needed to integrate basic industrial technologies into global production chains, new sources of energy generation and storage R&D of new technologies	Exemption from all types of income tax withholdings Exemption from city taxes on assets Exemption from payment of capital gain Exemption from import duties and taxes on goods necessary for the activity
Law for the Issuance of Digital Assets p. 20	Providers of digital asset services	Digital Asset Exchange, operating digital asset exchange platform, risk and pricing assessment and underwriting of digital asset issues, placing digital assets on digital asset platforms or wallets, promoting, structuring and managing all types of digital asset investment products, transfer of digital assets, safekeeping, custody or administration of digital assets, receiving and transmitting orders to buy or sell digital assets, execute orders to buy or sell digital assets, issuing certifications of digital assets and smart contracts	The nominal value, profits and capital gain will be exempt from any kind of taxation Exemption from VAT, income, city taxes and any other taxation, including withholding obligations Benefits apply to the entity and to the partners or shareholders based on their dividends
Law on Tax Incentives for the Promotion of Renewable Energies in Electricity Generation p. 25	Generating power through renewable energy sources	Individuals or legal entities that make new investments in power generation projects. Investments in food, accommodation, recreation, information and transportation, parking, real estate and housing development, cultural activities, rehabilitation, conservation and recovery of properties in the historic center	Exemption from customs duties on imports of goods for the construction and expansion of works. Income tax exemption Exemption from income tax on income from the sale of Reduced Emission Certificates.
Law for the Creation of the Planning Authority of the Historic Center of San Salvador p. 28		Investments in food, accommodation, recreation, information and transportation, parking, real estate and housing development, cultural activities, rehabilitation, conservation and recovery of properties in the historic center	Income tax exemption Expenses can be deducted from income tax City tax exemption

Law	Beneficiaries	Activities	Incentives
Law on Exploration and Exploitation of Hydrocarbon Deposits p. 33	Subscribers of investment contracts in multi-client mode	Investment contracts between the CEL and a natural or legal person, private or public, national or foreign, by which the contractor receives the exclusive right to market and commercialize the raw data obtained or collected in the prospecting, collection and processing	The Legal Stability Contract established in the Legal Stability Law for Investments is granted Total exemption from customs duties and taxes, including VAT imposed on the final import or purchase of raw materials or any goods necessary for the construction of prototypes or the development of the activities of the multi-client contract. Exemption from the obligation to withhold any tax
Law of Legal Stability for Investments p. 37	Individuals or legal entities that carry out new investment projects or expansions	Aeronautics, agribusiness, aquaculture, electronics, energy, strategic Infrastructure, logistics, health services, remote business services, tourism, telecommunications, manufacturing, science and technology	Tax, customs and immigration legal certainty
Law of Income Tax p. 41	The investors or taxpayers mentioned in paragraph 4) of Art. 3 of the LIT.		Excluded from payment of this tax are all values received obtained abroad or any movement of capital, remuneration or emolument, in money or goods, generated or not by the investment of national or foreign capital, which are nominally obtained by persons domiciled or not in the country, coming from any type of source abroad.
VAT Law p. 43		Importation of machinery destined to fixed assets to be used in the production of goods or services	VAT exemption
Special Transitory Law on Incentives and Preferential Treatments Aimed at Promoting the Repatriation of Salvadorans p. 45	Salvadorans residing abroad.		Import of household goods up to \$70,000. Import of motor vehicles.

Tax Incentives

In a world in constant economic and competitive evolution, El Salvador develops strategies to attract investment and promote sustainable economic growth in the nation. The country has enacted a series of laws to promote investment in diverse sectors.

These laws, which make up a comprehensive legal framework, have been created to facilitate and stimulate both national and international investment and to contribute to a favorable environment for business, job generation, and economic development throughout the country.

The following are the current Salvadoran laws that regulate tax incentives and benefits for investors. Each one of them focuses on a particular area of interest to make El Salvador an attractive and reliable destination for investment.

Industrial Free Trade Zones and Commercialization Law

Object

This law regulates the operation of free trade zones and warehouses for the perfection of assets, as well as the benefits and responsibilities of the owners of companies that use, develop, or manage them.

Benefits



Total exemption from customs duties and other taxes on the importation of raw materials, machinery, equipment, and other goods used for production.



Total exemption of taxes on the transfer of real estate.



Exemption from income tax and city tax (see tables).



Upon expiration of the term of total exemptions, free zone companies will have an additional 5-year term of total exemption if they can prove that they have increased their investment by 100% over the initial investment.

Income Tax Exemption

Location	Exemption rate	Period of exemption for companies in free trade zones	Period of exemption for DPA companies
Metropolitan Area of El Salvador (AMSS)	100%	For 15 years	For 10 years
	60%	For the following 10 years	For the following 5 years
	40%	For the following 10 years	For the following 10 years
Outside AMSS	100%	For 20 years	For 15 years
	60%	For the following 15 years	For the following 10 years
	40%	For the following 10 years	For the following 10 years

*San Salvador Metropolitan Area

City Tax Exemption

Location	Exemption rate	Period of exemption for companies in free trade zones	Period of exemption for DPA companies
Metropolitan Area of El Salvador (AMSS)	100%	For 15 years	For 10 years
	90%	For the following 10 years	For the following 5 years
	75%	Onwards	Onwards
Outside AMSS	100%	For 20 years	For 15 years
	90%	For the following 15 years	For the following 10 years
	75%	Onwards	Onwards

*Some strategic industries may benefit from an additional 5 to 10 years of total exemption.

Beneficiaries

Natural or legal persons that own companies and that comply with any of the following requisites:

1

Develop free zones called developers

2

Manage free zones called administrators

3

Are established in free zones

4

"Users" whose establishments are declared deposits for inward processing - DPA



Activities that may be covered by this law

- Production, assembly or maquila, manufacturing, processing, transformation, or commercialization of industrial goods
- Fishing of marine species for industrial transformation
- Cultivation, processing, and commercialization of flora species or unprocessed food produced under natural or artificial systems, such as greenhouses or laboratories
- Breeding and commercialization of amphibian and reptile species in captivity
- Dehydration of ethyl alcohol
- Production, assembly, manufacture, processing, transformation, or commercialization of compensating products that are used as raw material or input, alcohols for pharmaceutical or cosmetic use
- Aquaculture to be subjected or not to industrial transformation, such as preparations, preserves, derivatives, or by-products, as well as their respective processing and commercialization
- Production, processing, transformation, or commercialization of food or animal feed
- Production, assembly or maquila, manufacture, processing, transformation, or commercialization of sugar, its substitutes, derivatives, and by-products
- Any good that directly or indirectly incorporates sugar, its substitutes, derivatives, and by-products, as long as it is for the production of chemical, cosmetic, or pharmaceutical goods, food, and animal feed

Important Consideration

Article 6 of the law establishes the industrial activities that may **not** be eligible to enjoy the benefits of this law. Among the excluded activities are:

- 1 Exploration, exploitation, processing, and commercialization of natural gas, oil, and its derivatives
- 2 Production and commercialization of cement and Clinker
- 3 Production, assembly, manufacture, processing, transformation, or commercialization of alcohol
- 4 Production, assembly or maquila, manufacture, processing, transformation, or commercialization of sugar, its substitutes, derivatives, and by-products; and any good that directly or indirectly incorporates sugar

International Services Law

Object

The purpose of this law is to regulate the establishment and operation of parks and recreation centers. service, as well as the benefits and responsibilities of the owners of companies that develop, manage, or operate them. Provides incentives to strategic sectors such as contact centers, BPO, aircraft maintenance and repair, and logistics.

Benefits



Total exemption of customs duties and other taxes on the importation of machinery, equipment, tools, spare parts, accessories, furniture, office equipment, and others necessary for executing the incentivized activity.



Exemption of 100% of income tax on income derived from the activity during the period of operation in the country.



100% exemption from municipal taxes on the company's assets during the period of operation in the country.

Beneficiaries

Individuals or legal entities, national or foreign, that own companies that:

1

Develop service parks
or developers

2

Manage service parks
or administrators

3

Are established and
operate in service
parks or direct users

4

Establish and operate
in service centers

A photograph of a call center office. Several employees are seated at desks with computers and headsets, working in cubicles. The office has a modern, clean look with orange and grey cubicle walls. A whiteboard is visible in the background.

Activities that may be covered by this law

- International distribution
- International logistics operations
- Call Centers
- Repair and maintenance of marine vessels
- Aircraft repair and maintenance
- Business processes
- Medical and hospital services
- International financial services
- Container repair and maintenance
- Technology equipment repair
- Elderly and convalescent care
- Telemedicine
- Cinematography
- Specialized aircraft services

Law for the Promotion of Innovation and Technology Manufacturing

Object

This law aims to contribute to the economic growth, sustainable development, and competitiveness of the country by promoting innovation and manufacturing of technology developed in the national territory, fostering the growth of the labor force trained to generate advanced technological products and services, and strengthening the participation in the supply chains essential for the development of the technology industry at a global level.

Benefits



Exemption from all types of income tax withholdings for the incentivized activities



Total exemption from city taxes on the net assets declared by the beneficiaries



Exemption from payment of capital gains



Total exemption from the payment of import duties and taxes on goods, inputs, machinery, equipment, and tools necessary for the development of the incentivized activities

Beneficiaries and activities that can benefit from this law

Natural or juridical persons, national or foreign, that develop commercial activities in productive sectors related, at least, with one of the following items:

- Programming, management, maintenance, consulting, and analysis of computer systems or softwar.
- Development and commercialization of cloud computing and data streaming services; artificial intelligence, massive data analysis; distributed logging technology; cybersecurity solutions; quantum computing.
- Technologies based on the manufacturing of parts, materials and equipment or facilities, assembly, including manufacturing plants for technology equipment or hardware, semiconductors, communications technology, robotics, nanotechnology, aircraft, and unmanned vehicles.
- Systems engineering and technologies needed to integrate basic industrial technologies into global production chains.
- New sources of energy generation and storage that do not currently exist within the national energy matrix that will be subject to the corresponding authorizations and concessions.
- Research and development of new technologies.



Important consideration

- 1** Tax exemptions will have a total duration of 15 years
- 2** The law does not require a minimum amount of investment or number of jobs to apply for benefits
- 3** Beneficiaries must allocate at least 5% of the company's operating budget to research, development, and innovation

Law for the Issuance of Digital Assets

Object

This law aims to foster an efficient development of the digital asset market and to protect the interests of acquirers by 1) establishing a legal framework that grants legal certainty to transfer operations of digital assets that are used in the issuance of public offerings made in the territory of El Salvador, and 2) regulating the requirements and obligations of issuers, service providers of digital assets, and other participants operating in the process of public offerings.

Benefits



The yield of digital assets will be determined at the time of the transaction, following the conditions of the digital asset market. Digital assets may have a discount or premium that will depend on the practice of the digital asset market in which they are issued.



The nominal value and the yields or income from digital assets will be exempted from all kinds of levies, tributes, taxes, rates, and contributions, of any kind and nature, present or future, whether ordinary or extraordinary or even special. The capital gain or ordinary income obtained from the purchase and sale or any other means of transfer of digital assets, including debt forgiveness, will be exempt from any kind of taxation.



Issuers, certifiers, and service providers of registered digital assets will be granted all the tax benefits established in the previous point and will be exempted from the Tax on Transfer of Movable Goods and the Rendering of Services, Income Tax, City Tax, or any other tax. They will also be exempted from the obligation to withhold such taxes if this obligation exists.



Legal entities will benefit from the tax incentives mentioned in the previous two points. These will apply to both the entity and to the partners or shareholders individually considered, for the profits or dividends from the activities detailed in the preceding paragraphs.



The tax benefits established in the previous points will not apply when transactions of exchange of digital assets for goods or services that are not detailed in Article 19 of this Law are conducted.

Beneficiaries

Eligible for benefits are providers of digital asset services that are natural or legal persons whose ordinary line of business involves providing one or more of the digital asset services detailed in the activities section, and that comply with one of the following two conditions:

A

They are domiciled in El Salvador

B

They are not domiciled in El Salvador, but actively promote or market services to potential clients in the country



Benefited activities

Digital asset service providers will be able to perform the following activities:

- Exchange digital assets for fiat money or equivalent, or for other digital assets, either using own capital or from a third party.
- Operating a platform for the exchange or trading of digital assets or derivative digital assets.
- Assessing the risk and pricing and underwriting of digital asset issues.
- Placing digital assets on digital platforms or wallets.
- Promoting, structuring, and managing all types of digital asset investment products.
- The following operations when performed on behalf of and in favor of third parties:
 - i. Transferring digital assets or the means to access or control them, between natural or legal persons or between different acquirers, electronic wallets, or digital asset accounts.
 - ii. Safekeeping, custody, or administration of digital assets or the means to access or control them.
 - iii. Receiving and transmitting orders for the purchase or sale of digital assets or the trading of derivative digital assets.
 - iv. Executing orders for the purchase or sale of derivative digital assets.
 - v. Issuing certifications of digital assets and smart contracts referred to in this law following the guidelines established in the regulations issued by the commission.

Important Consideration

The provisions of this Law do **not** apply to:

A.

Digital currencies issued by central banks of another country, jurisdiction, or territory.

B.

Digital assets that are legal tender in any country, territory or jurisdiction, (under a prior or subsequent Law to this one) in terms of its monetary regulation, and when the use is for the exchange of goods and services, except for the goods categorized as digital assets and the services outlined in Articles 19 and 26 of the Law.

C.

Digital assets that can only be exchanged for a good or service that is provided by the issuer of that digital asset or by a limited number of providers of that good or service.

D.

Digital assets that cannot be traded or exchanged.

Law on Tax Incentives for the Promotion of Renewable Energies in Electricity Generation

Object

This law seeks to promote investments in projects that use renewable energy sources, through hydraulic, geothermal, wind, and solar resources, as well as biomass, for the generation of electricity.

Benefits



Exemption of customs duties on imports (during the first 10 years) of machinery, equipment, materials, and supplies destined exclusively for pre-investment and investment work in the construction and expansion of power generation plants.



Income tax exemption for a period of 5 years for projects over 10 megawatts (MW), and 10 years for projects of 10 megawatts (MW) or less.



Total tax exemption on income directly derived from the sale of Certified Emission Reductions (CERs) under the Clean Development Mechanism (CDM) of the Kyoto Protocol, or similar carbon markets.

Beneficiaries and activities

Natural or legal persons who, as of the effective date of the Law, are holders of new investments in new projects for the installation of power plants for the generation of electric energy, using renewable energy sources.

Note

In the case of geothermal power plants, the costs, and expenses for the reinjection of the geothermal resource may be deducted from the income tax (for a maximum period of 10 years).

Law for the Creation of the Planning Authority of the Historic Center of San Salvador



Object

This law declares a delimited area of the Historic Center of San Salvador it a cultural, tourist, and development zone for the promotion of activities and capital investment, creating for such purpose a regulatory entity that will ensure compliance with all the provisions of this law. Since it aims to protect, preserve, and regulate the area, it has a high social interest.

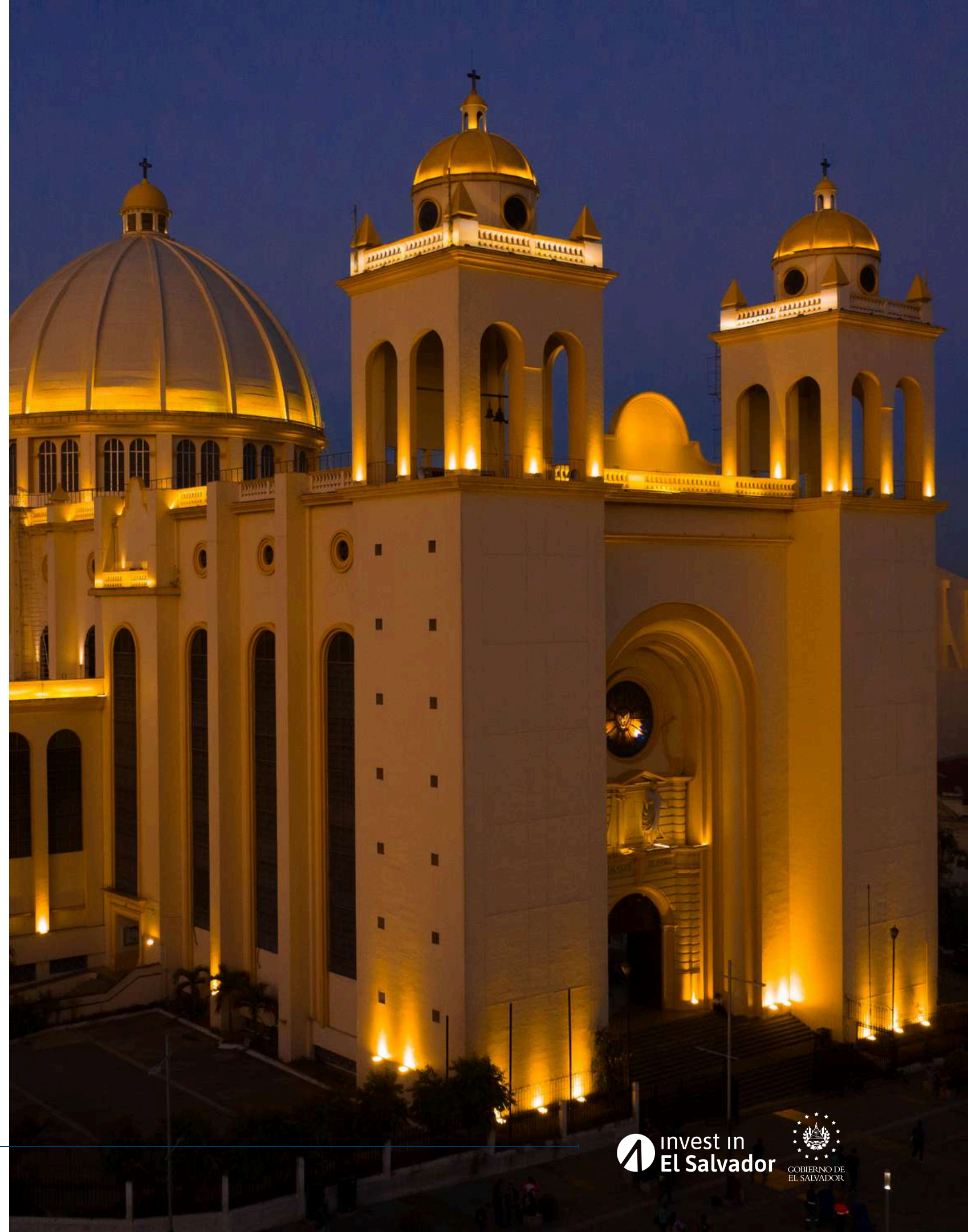
Tax Incentives

- 1** **Income Tax Exemption:** Investments in construction, remodeling, improvement, enlargement, recovery, and conservation of real estate for an amount of one thousand dollars (USD 1,000.00) per square meter in real estate with a minimum area of 25 square meters will be subject to income tax exemption for a period of ten years. Properties smaller than 25 square meters where the minimum investment generated is twenty-five thousand dollars (USD 25,000.00) will also be subject to this incentive.
- 2** **Income Tax Deductible Expenses:** One hundred percent is recognized as an income tax deductible expense, according to an appraisal made by duly authorized experts, by any natural or legal person, for the donation of real estate, or in the construction, reconstruction, restoration, maintenance, illumination or improvement of parks, green areas, churches or any other site for public use and purposes that are within the delimited zone, as long as it is made in compliance with the established requirements related to the subject of cultural heritage under the corresponding laws.
- 3** **Municipal tax exemption:** it is recognized and established the right to enjoy an exemption from municipal taxes, equivalent to one hundred percent of the total and for a maximum period of ten years, to any investment authorized by the APLAN.

Beneficiaries

Investments in commercial and tourism activities such as:

- Food
- Lodging
- Recreation
- Information and transportation
- Parking lot development
- Real estate and housing development
- Cultural activities
- Activities aimed at the rehabilitation, conservation, and recovery of the properties located within the delimited zone of the Historic Center of San Salvador



Important note

Private investments generated in all the historic properties of the State are **excluded** from these incentives.

To be subject to the incentives and benefits established in the Law, natural or juridical persons must conduct the investments within ten years, counted from the date this Law enters into effect.



Law on Exploration and Exploitation of Hydrocarbon Deposits

Object

The purpose of this law is to regulate the promotion, development and control of exploration and exploitation of hydrocarbon deposits, as well as their transportation by pipelines

Benefits



The Legal Stability Contract established in the Law of Legal Stability for Investments is granted



Total exemption from customs duties and taxes, including VAT levied on the final import or purchase of raw materials or any goods necessary for the construction of prototypes or the development of activities of the multi-client contract



Exemption from the obligation to withhold any tax

Beneficiaries and activities

Subscribers of investment contracts in the multi-client modality.

Multi-client contracts are investment contracts between the CEL and a natural or legal person, private or public, national or foreign, by which the contractor receives the exclusive right to carry out the marketing and commercialize the raw data obtained or collected in the prospecting, collection and processing.

Important consideration:

The investment contracts regulated in this law go through a bidding procedure, in which pre-qualification, bidding, presentation of offers, evaluation and award of contracts are carried out. Direct contracting is allowed in special cases regulated by law.

Other Tax Benefits

Law of Legal Stability for Investments

Object

The purpose of this law is to attract and promote National and Foreign Investment through a legal framework that guarantees legal security to the Investor, through the implementation of Legal Stability Contracts, to effectively contribute to the economic and social development of the country; to the growth of the strategic sectors; to the efficient integration of the national economy with the international economy and to the generation of employment.

Benefits

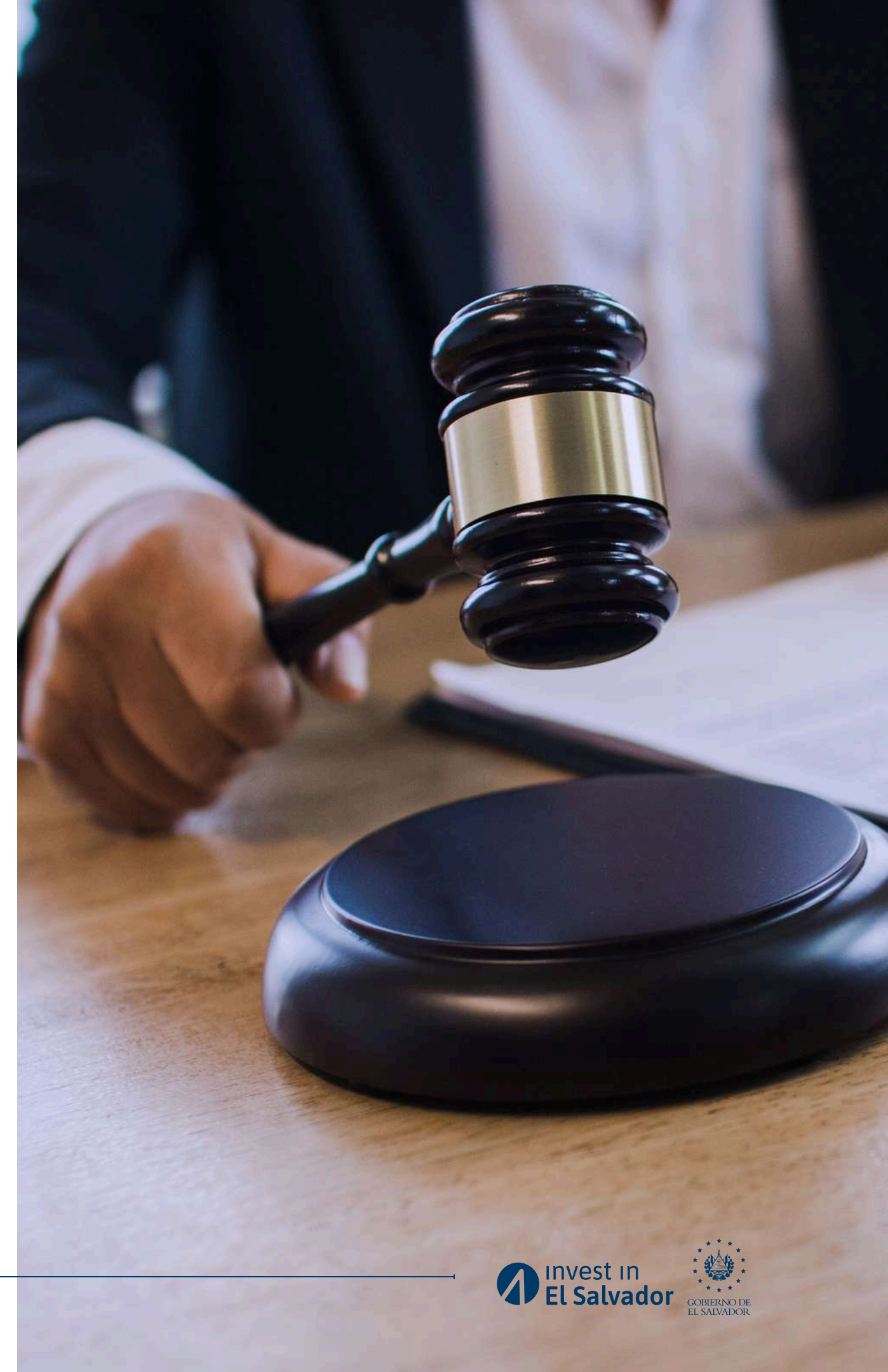


Guarantees legal tax, customs, and immigration certainty to investors for a period of up to 20 years, depending on the size of the investment.

Beneficiaries and activities that may benefit from this law

Will be subjects of application of this Law, natural and juridical persons, national or foreign, that carry out new investment projects or expand existing ones within the national territory, that contribute to the strengthening of the productive forces of the country and generate added value to develop the following sectors considered strategic and necessary for the growth of the country's economy:

- Aeronautics
- Agribusiness
- Aquaculture
- Electronics
- Energy
- Strategic Infrastructure
- Logistics
- Health services
- Remote business services
- Tourism
- Telecommunications
- Miscellaneous Manufacturing
- Science and technology



Important Consideration

According to Article 14 of the law, to obtain the guarantees granted by the Legal Stability Contract, investors must make an investment in fixed assets for an amount equal to or greater than four thousand two hundred and twenty (4,220) minimum wages in force in the industrial sector (US\$365).

The term of the contract will be directly related to the amount of the investment, as follows:

Investment sum in fixed assets	Maximum contract term	Total investment execution time
Between 4,220 and 21,100 minimum wages in force for the industry sector	Up to 5 years	First 2 years
Between 21,101 and 42,200 minimum wages in force for the industry sector	Up to 10 years	First 5 years
More than 42,200 minimum wages in force for the industry sector	Up to 20 years	First 10 years

Law of Income Tax

Law of Income Tax

The investors or taxpayers mentioned in paragraph 4) of Art. 3 of the LIT, who may or may not be domiciled in El Salvador, whether a natural person, legal entity or entity without legal personality.

Incentives:

Excluded from payment of this tax are all values received in any concept, obtained abroad or any movement of capital, remuneration or emolument, in money or kind, generated or not by the investment of national or foreign capital, which are nominally obtained or received by natural persons, legal persons or entities without legal personality, domiciled or not in the country, coming from any type of source abroad.

Law on the Tax on Transfer of Movable Goods and the Rendering of Services (VAT Law)



Benefits

For the reactivation of the productive sectors, there is also a VAT exemption on the import of machinery made by taxable persons and that is destined for their fixed assets to be used directly in the production of goods and services not contemplated in articles 46 and excepted in art. 174 of the Law on Tax on the Transfer of Movable Goods and the Rendering of Services (VAT Law).

Special Transitory Law on Incentives and Preferential Treatments Aimed at Promoting the Repatriation of Salvadorans

Beneficiaries

Salvadorans by birth, or naturalization, in the latter case, provided that nationality has been acquired prior to the entry into force of this Law, who reside in any country abroad and duly express their intention to transfer their permanent residence to El Salvador.



Tax Incentives

- 1** Exemption from duties and taxes for the importation of household goods one time, provided that the value of the household goods does not exceed \$70,000.00. Household goods will be understood as the set of goods, consisting of new or used household goods and articles, in quantities and characteristics that allow it to be determined that they will be intended for domestic use.
- 2** Exemption from the payment of duties and taxes on the importation of up to two light motor vehicles, in accordance with the requirements established in the corresponding regulations, per family group for private or family use.

Laws

The complete and detailed text of all the regulations mentioned in this document can be consulted at:

www.investinelsalvador.gob.sv