



GLOBAL  
EMPLOYER  
GUIDE

**EL SALVADOR**





## Basic Country Facts

### Full name

- Provincia De Nuestro Señor Jesus Cristo, El Salvador Del Mundo

### Capital

- San Salvador

### Main Languages

- Spanish
- Nawat

### Population

- 6.421 million

### Monetary unit

- United States Dollar

### Internet domain

- .sv

### International dialing code

- +503

### Currency

- United States Dollar

# STATUTORY LABOR REQUIREMENTS

## Probation Period

- Probation cannot be more than 30 days.

## Annual Leave

- If an employee has been employed for at least year, an employee is entitled to 15 days of paid annual leave.
- Annual leave is calculated from December 12-December 12.
- Unused vacation days cannot be paid out; the employee must enjoy all of their vacation days within the year.

## Public Holidays

- New Year's Day (1st January)
- Maundy Thursday (9th April)
- Good Friday (10th April)
- Holy Saturday (11th April)
- Labor Day (1st May)
- Mother's Day (10th May)
- Father's Day (17th June)
- El Salvador Independence Day (15th September)
- All Souls Day (2nd November)
- Christmas Day (25th December)

## Maternity Leave

- In El Salvador, a woman is entitled to a total of 16 weeks of paid maternity leave at the rate of 75% and is paid by social security.
- 6 of the weeks can be taken before the expected due date and 10 weeks after the birth of the child.
- If the mother becomes temporarily disabled due to the pregnancy, she may be entitled to 100% of the regular pay.
- This is granted by social security to those who paid their contributions.



### **Paternity Leave**

- Fathers receive 3 days of paternity leave paid at 100% of the regular pay and can be used within the first 15 days of the birth of the child.

### **Sick Leave**

- For a serious illness, employers will cover the first three days of the illness, and social security will cover the rest of the medical leave at 75% of the salary.
- Disability for a period of one year or less is also covered by social security.

### **Work Hours**

- El Salvador operates on a 6-day work week of 44 hours.

### **Overtime**

- Overtime is paid at 100% of the base salary, and workers are allowed to structure their hours by working an extra hour on weekdays (when applicable) to get additional time off at the weekend.

### **Notice Period**

- Employees are not obligated to provide advance notice.

### **Severance**

- Compensation is only required when an unjustified dismissal occurs.
- For cases in which a labor court deems a dismissal unfair, the employee is entitled to pay from the date of the dismissal as well as severance pay.
- Severance pay is 30 days' salary for each year worked.

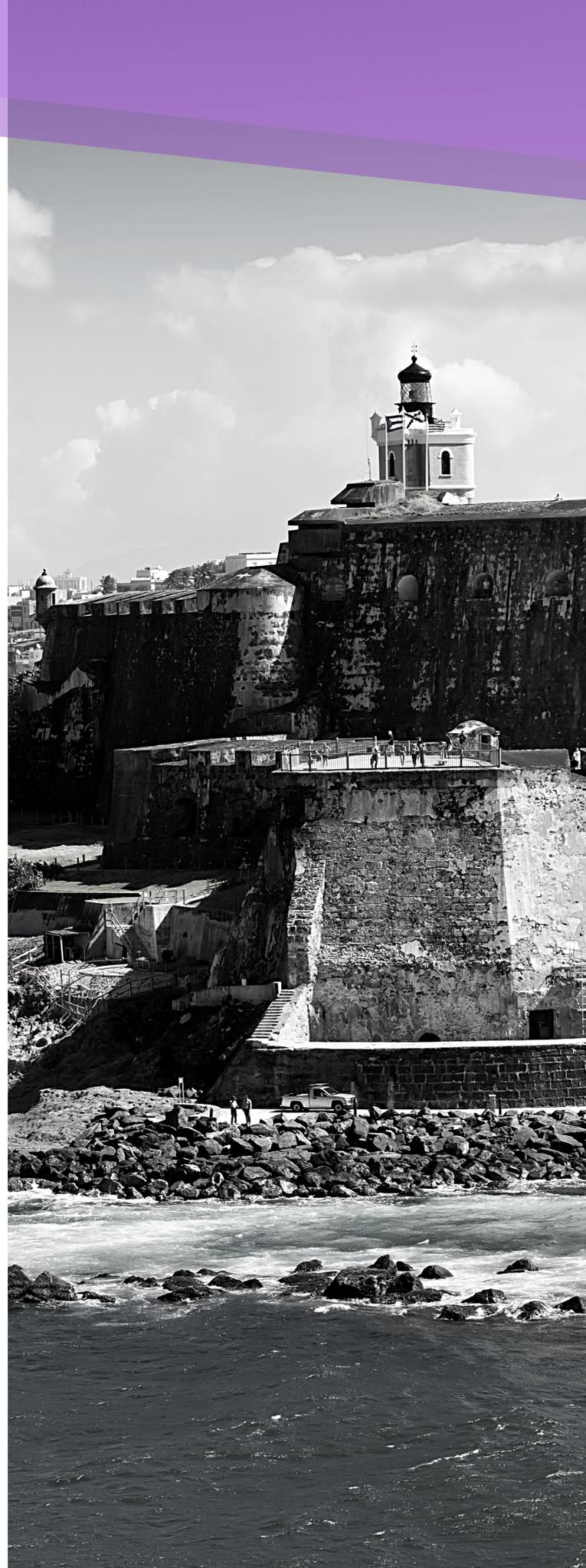
### **13th Month**

- 13th month pay is mandatory in El Salvador.
- It is a Christmas bonus based on years of service.



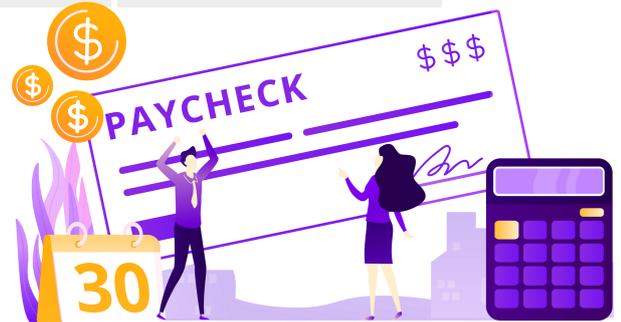
## Income Tax

- Resident individuals are subject to tax on El Salvador-source income as well as foreign-source investment income (interest from cash deposits in financial institutions abroad, and gains on the sale of foreign securities, financial instruments and derivative contracts).
- Income tax paid abroad with respect to foreign-source income may be credited against the Salvadoran tax liability for such income according to specific rules.
- Nonresident individuals, regardless of their nationality, are taxed only on their El Salvador-source income, which includes income derived from the following:
  - Assets located in El Salvador
  - Activities carried out or capital invested in El Salvador
  - Services rendered or used in El Salvador, even if received or paid for outside El Salvador
- Individuals are considered tax resident if they stay in El Salvador for more than 200 consecutive days during a tax year.
- An individual staying 200 consecutive days or less within a tax year is considered a nonresident for tax purposes.
- Tax is imposed on salary, remuneration, fees and other compensation received for services rendered or used in El Salvador.
- Income derived from self-employment services rendered or used in El Salvador or from a trade or business is subject to tax in El Salvador
- Employment and self-employment income for resident individuals is taxable at the following rates.



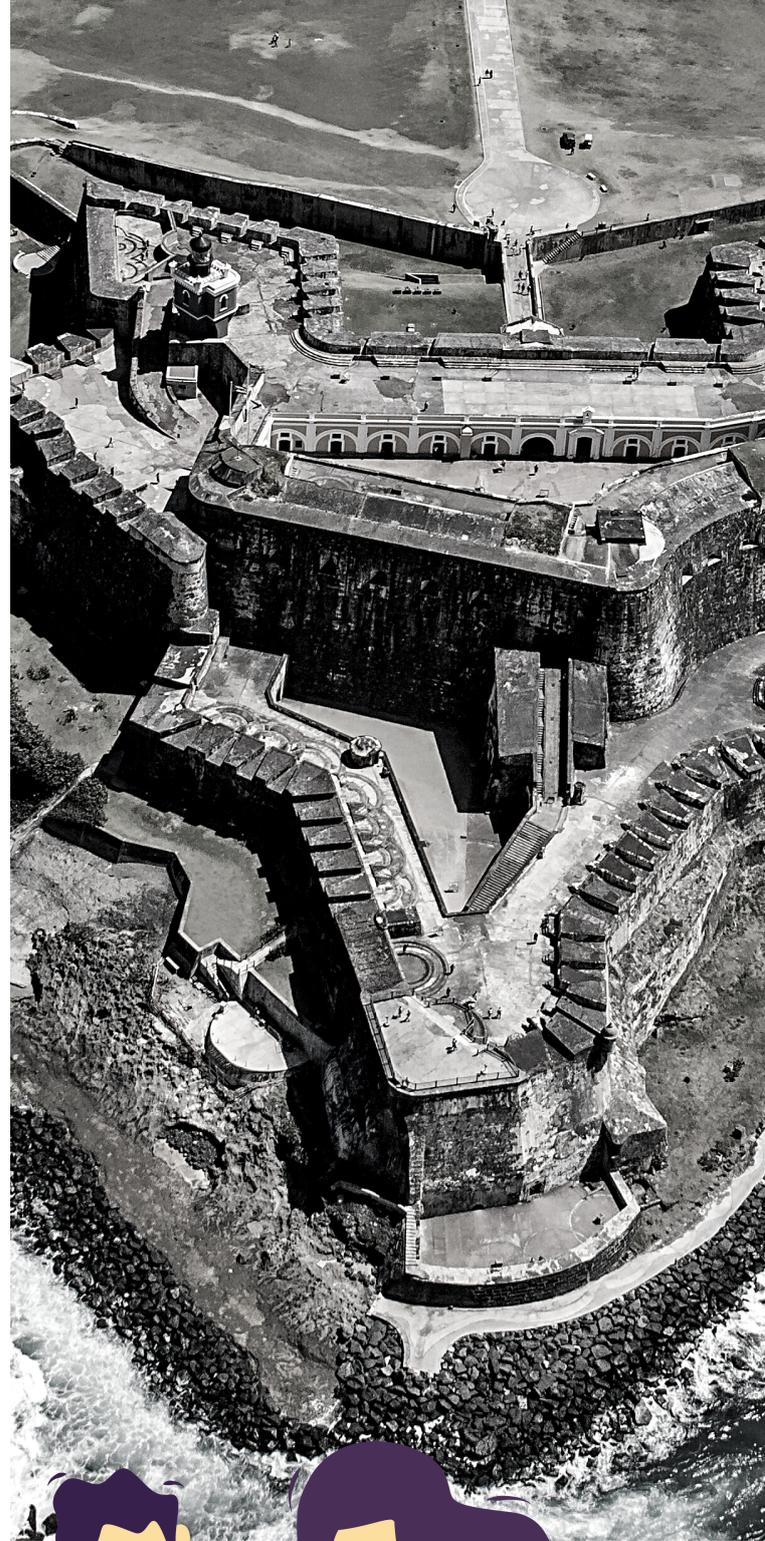
Annual taxable income		Fixed Tax Amount (USD)	Variable Tax Rate on Excess
Exceeding (USD)	Not Exceeding (USD)		
0	4,064	0	0
4,064	9,142.86	212.12	10
9,142.86	22,857.14	720	20
22,857.14		3,462.86	30

- Nonresident individuals are subject to income tax from Salvadoran sources at a flat 30% rate.



## Social Security

- Social security contributions are levied monthly on salaries at a rate of 8.5% for employers and 3% for resident and nonresident employees, with a monthly salary ceiling of USD1,000.
- Death and pension funds are covered by private institutions, which are funded through monthly contributions levied on salaries at a monthly rate of 6.75% for employers and 6.25% for employees, with a monthly salary ceiling of USD6,500.
- The Pension Fund Administration considers any compensation for services provided in El Salvador under an existing employment relationship to be taxable, regardless of the migratory status of the individual.
- For foreign individuals, the Pension Fund Administration has established a refund mechanism for such contributions, and a refund may be requested after the foreign individual leaves El Salvador.
- In principle, salary-in-kind is not subject to Pension Fund contributions because the Pension Fund Law states that only compensation received in cash by the employee for ordinary services rendered to the employer is subject to Pension Fund contributions.



Contribution	Employer	Employee
<b>Social Security Contributions</b>	8.5%	3%
<b>Death and Pension Funds</b>	6.75%	6.25%



# Deductible Expenses

## Standard deductions

- Individuals whose income comes from salaries not exceeding USD 9,100 a year are not required to file a tax return, and are allowed a single deduction of USD 1,600, which is embodied into the withholding rates their income is subject to.

## Personal Deductions

- Salaried individuals whose earned income does exceed USD 9,100 a year may not deduct the single deduction of USD 1,600, but may deduct medical and educational expenses up to USD 800 per item.
- Also, these taxpayers may deduct any donations provided to not-for-profit entities, up to 20% of the sum remaining after deducting from their net income of the respective tax period the value of such donations.
- Other deductions that may be considered for the taxpayers are the voluntary contributions to the pension fund, which is additional and separate from the one established in the law as obligatory; this would be deductible at up to 10% of monthly income reported to pension fund.

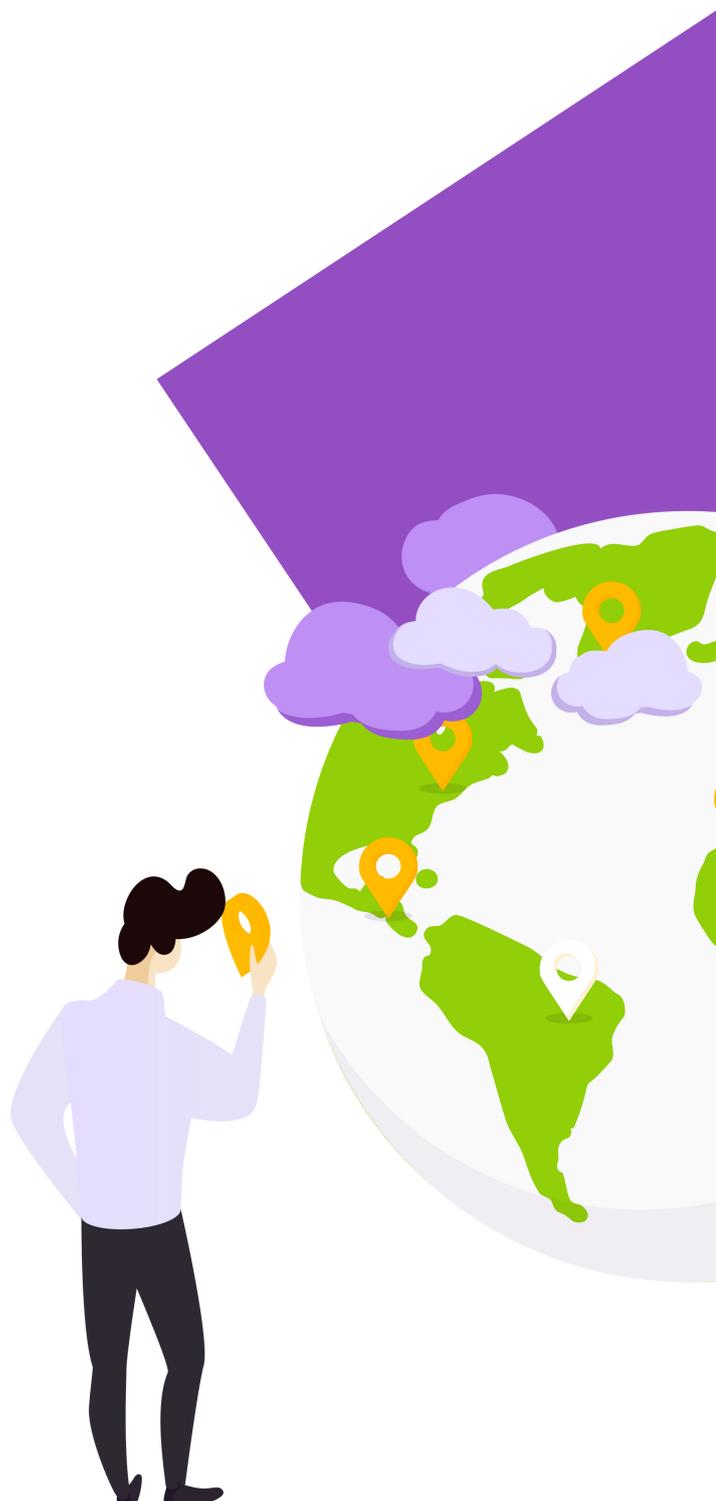
## Personal Allowance

- Family allowances are not recognized as deductible expenses for income tax purposes.

Deductible Expenses	
<b>Standard Deductions</b>	<ul style="list-style-type: none"> <li>• Individuals whose income comes from salaries not exceeding USD 9,100 a year are not required to file a tax return, and are allowed a single deduction of USD 1,600, which is embodied into the withholding rates their income is subject to.</li> </ul>
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## Immigration

- Foreigners must apply for a work permit to work in El Salvador, regardless of where the compensation is paid.
- The government of El Salvador grants work authorization to foreign employees, under the option of temporary resident.
- This is subject to certain rules that have to be checked on a case-by-case basis because these rules vary among employees and by country of citizenship.
- The application may be filed before arrival in El Salvador.
- The approximate time for obtaining a work permit after all documents are filed with the immigration authorities ranges from three months to four months.
- However, after the required documents are filed with the immigration authorities, a receipt may be obtained and used as a temporary permit until final approval is received.
- Work permits are valid for one year and are renewable for similar periods of time.
- The government of El Salvador may grant residencies to foreign nationals who are interested in residing in El Salvador as foreign workers as well as to the dependents of foreign workers.
- Dependents must prove that they receive income from the foreign worker or that the foreign worker covers their living expenses.
- However, immigration and visa requirements generally are amended frequently in El Salvador, and applicable requirements may vary among workers.
- As a result, the rules should be checked on a case-by-case basis.
- Foreigners may apply for local residency with the General Direction of Immigration and Foreigner Issues (Dirección General de Migración y Extranjería) if certain requirements are met.
- Residency is granted for a renewable one-year period.



Type of Visa/ Permits	Documentation	Validity	Eligibility
<b>Work permit</b>	<ul style="list-style-type: none"> <li>• Passport valid for at least 6 months</li> <li>• Police Clearance Certificate(s) with Legalization (from country of origin)</li> <li>• Police Clearance Certificate from El Salvador</li> <li>• Medical Certificate</li> <li>• Evidence of University Degree or Experience</li> <li>• Copy of the pages of Passport with visas/entries stamped</li> <li>• Provisional Residence Card (Carné de Residencia)</li> </ul>	1 year (can be renewed)	<ul style="list-style-type: none"> <li>• Foreigners must apply for a work permit to work in El Salvador, regardless of where the compensation is paid.</li> <li>• This is subject to certain rules that have to be checked on a case-by-case basis because these rules vary among employees and by country of citizenship.</li> </ul>



## Value Added Tax (VAT)

- VAT (i.e. Impuesto al Valor Agregado or IVA) is levied at a rate of 13% over 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.

VAT	
Standard Rate	13%

## Withholding Tax

### Dividends

- Dividends paid to a resident company or individual are subject to a 5% withholding tax
- Dividends paid to a nonresident company or individual generally are subject to a 5% withholding tax, in addition to the tax applicable to the distributed profits at the corporate level
- The rate may increase to 25% if the recipient is located in a tax haven or jurisdiction with a prudential tax regime

### Interest

- A 10% income tax withholding tax applies to interest received by resident and nonresident individuals and companies on bank deposits
- Interest paid between resident company is not subject to withholding tax
- Interest paid to a nonresident company or individual (other than interest on bank deposits) generally is subject to a 20% withholding tax
- The rate may be increases to 25% if the recipient is located in a tax haven or benefits from a preferential tax regime
- Withholding tax at a reduced rate of 10% applies if the recipient of the interest is a financial institution supervised in its country of origin and registered with the Central Reserve Bank of El Salvador



## Royalties

- Royalties paid to a resident company are not subject to withholding tax
- A 10% withholding tax applies to royalties paid to a resident individual
- Royalties paid to nonresidents generally are subject to a 20% withholding tax
- The rate may be increases to 25% if the recipient is located in a tax haven or benefits from a preferential tax regime
- A 5% rate is applicable for payments to nonresident for transfers of intangible assets or for the use of, or the right to use, rights over tangible and intangible assets related to cinematographic movies, video tapes etc.

## Fees for technical services

- Fees for technical services paid to a resident company are not subject to a withholding tax
- A 10% withholding tax applies to fees for technical services paid to a resident individual
- Fees for technical services paid to a nonresident are subject to a 20% withholding tax
- The rate may be increased to 25% if the recipient is located in a tax haven or benefits from a preferential tax regime

Type of Payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	5%	5%	5%/25%	5%/ 15%
Interest	0%/ 10%	10%	10%/20%/25%	10%/20%/25%
Royalties	0%	10%	5%/20%/25%	5%/20%/25%
Technical Service Fee	0%	10%	20%/25%	20%/25%



## Termination

- The employer can legally terminate (without notice) the contract under the following grounds:
  - if the worker deceived the employer by means of false letters of recommendation or certificates when the contract was concluded. This ground ceases to be operative after the worker has completed 30 day's employment;
  - due to the worker's repeated negligence;
  - if the employer lost confidence in an employee exercising managerial surveillance or similar functions;
  - if the worker reveals manufacturing secrets or communicates administrative matters to the detriment of the undertaking;
  - if the worker commits serious acts of immorality inside the undertaking or while performing work outside the workplace
  - if the worker commits disrespectful acts against the employer or his/her relatives, except in the case of provocation
  - if the workers commit acts causing serious disruption to the company's activity;
  - if the worker (either intentionally or by negligence) seriously endangers the safety or operation of the establishment, or the persons therein safety or activity of the workers, or their health;
  - if the worker deliberately damages the plant, machinery, tools, work implements, goods or merchandise
  - if the worker is absent from work without any justification for two consecutive working days, or a total of three days within the same months; or
  - If the worker, after imprisonment or pre-trial detention, comes back to work, within three days from the date of release, and s/he committed a crime against the employer or his/her relatives
  - If the worker commits serious breaches of the obligations under the contract of employment
  - In the event of disobedience to the employer (or employer's representative)
  - If the worker drinks alcohol or takes drugs during working time or if s/he works under the effect of alcohol or drugs
  - If the worker does not fulfil his/her obligations under art 24 LC
- Compensation is only required when an unjustified dismissal occurs.
- For cases in which a labor court deems a dismissal unfair, the employee is entitled to pay from the date of the dismissal as well as severance pay.
- Severance pay is 30 days' salary for each year worked.



## Statutory Benefits

- These are mandatory benefits as postulated by law
- These include probationary period, annual leave, public holidays, sick leave, maternity leave, paternity leave, overtime pay, severance pay and 13th month pay.
- Statutory benefits also include social security benefits

### Statutory Benefits

Probationary Period

Annual Leave

Public Holidays

Maternity Leave

Paternity Leave

Sick Leave

Overtime Pay

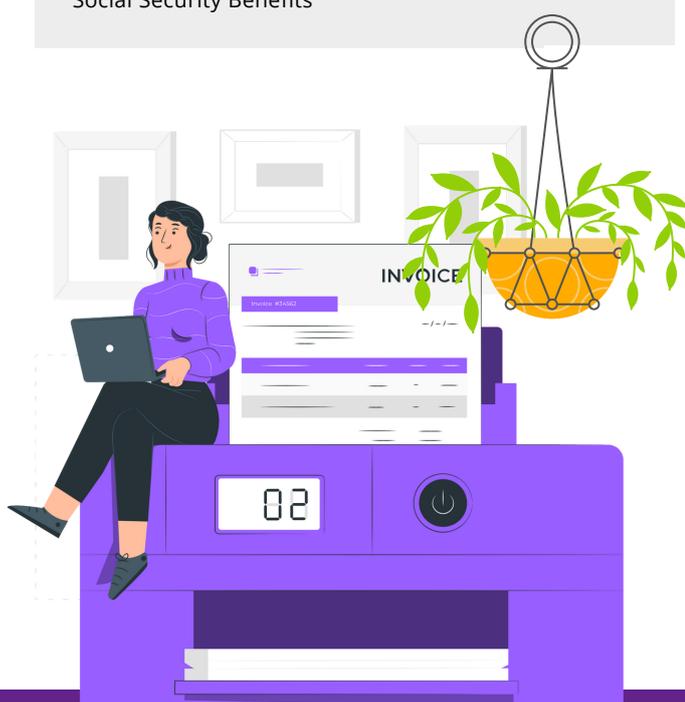
Severance Pay

13th Month Pay

Social Security Benefits

## Payments and Invoicing

- The normal tax year is the calendar year.
- Returns must be filed and any tax liabilities due must be paid within the first four months of the following tax year.
- Extensions are not available.
- Employers are responsible for withholding income tax and social security contributions from employees' salaries on a monthly basis.
- Employees must file annual income tax returns, which report their employment compensation and corresponding taxes withheld.
- However, employees are not required to file annual income tax returns if their annual earnings are less than USD60,000.
- However, they must file annual income tax returns if the income was not subject to withholding or if the withholding was not in accordance with the tax due based on the progressive tax rate table.
- In June and December of each year, a half-year and end-of-year withholding recalculation is required.
- To determine withholding as of June and December, the employer must recalculate based on accumulated taxable wages at the end of each period. In principle, nonresidents are required to file tax returns.
- However, if all El Salvador-source income was subject to withholding at source, the withholding tax is considered a final tax and the filing of a tax return is not required.
- Individuals who are taxpayers in El Salvador are required to file a Personal Real Estate Statement, which is filed together with the annual income tax return.



## Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank El Salvador ranked 91st in the World in 2019 in terms of ease of doing business.



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