

SETTING UP BUSINESS IN EL SALVADOR



General Aspects

El Salvador is situated in the heart of Central America, bordering two other countries. Its currency is the United States Dollar. With about 21,040.78 square kilometers, El Salvador is one of the smallest countries in the region, nevertheless it has the best of the city, the mountains, and the beach of the region, hours away from each other. The total population is around 6,757,408 people. The official language is Spanish, but many people, especially in business life, speak English as well.

Legal Forms of Business Entities

Legal form	Feature	Remarks
Natural Person	<p>Business formalized by a single person, fully responsible for the obligations and benefits that are derived Business.</p> <p>Must formalize its legal registration in:</p> <ul style="list-style-type: none"> • IRS office, as a business owner and taxpayer. • National Registration Center (CNR) with your initial balance sheet, and first time registration form for your Company and Establishment. • Registration in the Department of Statistics and Censuses (Digestyc) • City hall. 	<p>Small businesses do not require to specific regulations.</p> <p>Restaurants, and businesses that do imports and exports may require to comply on additional requirements.</p>
The companies	<p>The share capital of such companies cannot be less than \$2,000.00. Which is divided into shares which may be of value and different category.</p> <p>The companies are classified into: a) Person companies b) Capital companies</p> <p>Both may be of Capital.</p> <p>Types of Companies of persons: Collective Companies on behalf of Simple limited partnerships. Limited Liability.</p> <p>Types of Capital Companies: Anonymous Companies.</p> <p>Companies Limited by shares or limited partnerships by shares</p>	

Societies of persons	<p>The society of persons is a society of people shares, which is characterized by:</p> <p>Personal trust between partners is the key determinant of willingness to join.</p> <p>Members' shares can be uneven and not proportionality between them in terms of its size.</p> <p>Social capital, therefore, is divided into aliquots, and this circumstance is an exception in the limited liability company.</p> <p>Support the Existence of capitalist partners and industrial partners.</p>
Types of Compnies of persons I. name compa-nies in collective or partnerships II. Simple limited partnerships or limited partners-hips simple III.Limited Liability	<p>The partnership is characterized by the following:</p> <ol style="list-style-type: none"> 1. All partners meet unlimited times and severally, for the social obligations and, as compensation, all partners are also entitled to participate in the management of the company's business. 2. The name of the company is a business name or a name derived from combining the names of the partners, where the name does not contain all the names of partners, something that happens with some frequency, because in practice it would be too lengthy company, whether it contained all the names, add a few words to indicate that there are more partners, such as ' and Company, "and Brothers", "and Partners" or other similar. <p>There may be shares with different rights, these companies can make three different kinds of contributions: The contributions that make up ordinary share capital and additional contributions</p>
Capital companies	<p>Stock company which are characterized by:</p> <p>Personal trust between partners is not part of the wish to be associated as a result, the shares may be transferred or sold at anytime.</p> <p>Given the ease of transfer of the shares, it has been necessary to regulate the value of the shares and therefore the share capital is divided into aliquots, each of which is documented by a share.</p>
I. The anonymous company	<p>The anonymous company is characterized by:</p> <p>It has its capital divided into a number of Shares represented by securities, called shares, which usually can move freely Its administration is by means of the agencies under the law and the social compact whose members owe their election to the membership.</p> <p>As all companies, the anonymous company is constituted by deed recorded in the Register of Trade, the company must be constituted by at least two partners, the social script may not be granted until all the shares composing the share capital have been subscribed. If the type of activity that constitutes the social purpose is for those who need government grant for building or government authorization to operate, such a requirement should be completed prior to the granting of social writing.</p>
II-limited partnership by shares	<p>The limited partnership by shares is a mixed form, which contains elements of society and elements of social capital, the personal element is represented by partners partnership, with unlimited liability and have the exclusive right to manage the company, the element capital is represented by the limited partners, who are shareholders, they respond and they have a limited right to manage.</p>

Foreign companies

Foreign companies wishing to engage in commerce in El Salvador, establishing residence in the country or setting up branches, should be recorded in the Register of Commerce.

To obtain the above records, the legal representative of the foreign company or its attorney general or special, shall submit application with the following documents:

Statute to verify that the company is legally constituted under the laws of the country in which it was organized.

Documentation that the decision to establish residence in El Salvador or to operate in the country has been validly made in accordance with its statutes.

Able to serve with the representative of the foreign company, which bring the power of this in a comprehensive, clear and precise. The representative appointed shall reside permanently in the country.

The capital sufficient to carry out the activity, which may not be less than the minimum specified in the law to the Salvadoran companies, whose income is verified with the Registry of Foreign Investment for this purpose by the Ministry of Economy.

Initial Balance Certified Public Accountant in the country, the foreign company or the branch to be, which reflects their social capital.

The application in question, the foreign company or branch must protest submission to the laws, courts and authorities of the Republic of El Salvador in relation to the acts, duties and obligations acquired in Salvadoran territory, or which have acquired rights and obligations in the territory of El Salvador, or to be effect on it.

The foreign branches have other relevant legal requirements such as:

- Registry at National Registration Center (CNR).
- Registration of Initial Balance Sheet at CNR.
- Register of Foreign Investment in Foreign Investment Office (ONI) Registration of Foreign Investment in ONI and CNR.

Classes of cooperatives are: a) Production Cooperatives b) Cooperative housing c) Cooperatives Service

Cooperatives with variable capital and unlimited, of indefinite duration and limited liability with a variable number of members. Must be formed for purposes of service, production, distribution and participation.

The minimum number of members determined by the nature of the cooperative, which in no case be less than fifteen.

Cooperative associations will be established by General Assembly held by all the interested people.

Assembly shall be adopted in the Statute will be signed and the company's capital, paid at least 20% of the issued capital.

The minutes of Constitution shall be signed by all partners.

When the Cooperative has been established, ask for official recognition and registration on the National Register of Cooperative INSAFOCOOP and to obtain legal personality.

To be a member of a cooperative association among the privileges granted at the request of the Cooperative Agreement by the Executive Branch of Economy, in whole or in part, upon cause hearing with the Finance Ministry for a period of five years from the date of application and renewable at the request of the Cooperative for equal periods are:

	<p>Exemption from income tax, Roads and Agricultural Land, whatever its nature, which is formed with capital, interests that are generated from the fiscal year during which the application is submitted;</p> <p>Exemption from tax and municipal taxes on their establishment and operations. Benefits for Associates:</p> <p>Their Surplus Distribution to constitute the legal reserve from 10% and 20% of net income It is the Book of Education 20% of the Net will need to be older than sixteen years of age, without distinction of race, nationality, religion, political or gender, have a good reputation and meet the other requirements mentioned statutes.</p> <p>The share capital of the Cooperative shall consist of contributions from partners, capitalized interest and surplus. The contributions of each partner in the cooperative may not exceed 10% of the share capital except where authorized by the General Assembly of Associates, but it may never be greater than 20% of it.</p> <p>The Management, Administration and Supervision of the Cooperative shall consist of your order: The General Assembly of Associates; The Board of Directors; The Supervisory Board.</p> <p>LEGAL FORM DESCRIPTION BENEFITS The General Assembly is the highest authority partners of cooperatives, hold meetings in their home, their agreements are binding for the board, the supervisory board and all the</p> <p>Partners present, absent, or not conforming, provided there were taken under this Act, its regulations or statutes.</p> <p>The sessions of the General Assembly of Members shall be ordinary and extraordinary.</p> <p>General Assembly Meeting will be held within a period no longer than ninety days after the close of each fiscal year.</p> <p>The Extraordinary General Meeting to be held as often as necessary and this would address only the points corresponding to the calendar.</p> <p>The quorum for meetings of General Assembly of Associates, both ordinary and extraordinary is half over at least one of the partners Avilés on first call.</p> <p>If for lack of quorum established in the preceding paragraph has not been held by the general, this may be held with participants in the second call will be forced to comply and must be held at least twenty-four hours after the date to be held the general assembly.</p>
<p>a) Production Cooperatives</p>	<p>The producers are integrated together to produce, process or sell their goods in common such as:</p> <ul style="list-style-type: none"> a) Agriculture; b) Livestock Production; c) fish production; d) Agricultural Production; e) Production Crafts;
<p>b) Cooperative Housing</p>	<p>Are those designed to ensure its partners through mutual aid housing and the effort itself?</p>

c) Cooperatives Service

Which aim to provide services of all kinds, preferably with their partners, to improve environmental and economic conditions to meet their family needs, social, occupational and cultural backgrounds.

Its classes are:

1. Savings and Credit;
2. Transportation;
3. consumption;
4. Professional;
5. insurance;
6. Education;
7. Supply;
8. marketing;
9. School and Youth.

Associations and not-for-profit foundations

Associations

Associations are all private legal entities, which Are trade associations that promote constitute the group of people to carry out a permanent any legal activity.

Partnerships will be by public writing in which the founders established the new entity, approval of the statutes, and elect the first Directors.

May appear to constitute a partnership aliens prove their residence in the country.

The management of partnerships will be the responsibility of individuals and organizations that are established in the statutes.

The statutes of the associations established the rights and obligations of members within the institution and the affiliation of new members and the loss of such quality. The membership cannot be sold, transferred or inherited it, or be transferable to another the exercise of the rights concerned.

Not-for-profit foundation	<p>These are entities created by one or more persons for the administration of an estate for purposes of public utility, the founders set up to achieve these ends.</p> <p>Foundations are constituted by deed or by will where the founder established the new entity, indicated its purpose, to provide heritage and make the governing statutes.</p> <p>Foundations are managed by the person or organization that provides college's founder.</p> <p>For social purposes are entities that enjoy tax exemption, there is no pay for any of its partners.</p> <p>Foundations may not have membership or to compel its members to pay dues to increase their wealth.</p> <p>The administrators of a foundation have the power to administer and dispose of assets in the terms established by law and the statutes of the entity.</p> <p>The contribution of assets to a foundation is essential for its formation.</p> <p>Associations and foundations are eligible to apply for recognition of legal personality by the State, through the Ministry of Interior.</p> <p>Legal persons of private law non-profit incorporated pursuant to foreign law in El Salvador have the same rights as Salvadoran legal persons.</p> <p>For purposes of registration of the entity in the Register of Commerce, the person concerned according to the statutes shall be the legal representative thereof, shall submit a written application addressed to the Director General of the Registry, accompanied by the following: Two Testimonies of the Book Matrix Constitution of the association or foundation in question, showing further the adoption of the Statute, the election of the first board of directors or agency thereof.</p>
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Organizational Questions

Topic	Feature	Remarks
Legal requirements to form any kind of company described in the preceding paragraphs are the following requirements:	<p>Legal requirements to form any kind of company described in the preceding paragraphs are the following requirements:</p> <p>That there are at least 2 partners, to be registered on behalf of company in the Register of Commerce.</p> <p>Development of Memorandum of association the Company Register at the Ministry of Finance for VAT registration of the company and NIT.</p> <p>Obtaining Trade Registration for the first time Registration of the company in the municipality Registration of the Company in the General Directorate of Statistics and Censuses Registration of the company at the ISSS (Salvadoran Social Security Institute).</p> <p>Registration of the company in the AFP (Pension Fund Administrators).</p>	<p>These statutory provisions are subject to all companies in El Salvador.</p>

Taxation

Tax	Feature
<p>Municipal taxes, tax, subject to the types of companies described above are as follows.</p>	<p>Annual Income Tax. If your company has a \$100,000.00 USD Year End income, your income tax will be 30%.</p> <p>If your Profit after your income tax is above \$500,000.00 USD the company has to pay an additional 5% as a "security contribution".</p> <p>Tax Account Monthly Payment (1.75% of gross revenues) at the end of the fiscal year serves as a down payment to repay the income tax determined.</p> <p>Tax on Transfer of Property and Services.</p> <p>Delivery (13%) on sales or services rendered monthly and 13% on purchases and end of each month is paid by sales tax (Goods and Services) and is subtracted the tax credits generated by the 13% tax on purchases made in the period and the difference may reflect tax paid or credited to balance for the next month.</p> <p>Municipal Taxes (Each country's municipalities as a tax paid pursuant to its municipal law and specifies the basis for calculating this tax is the amount of the asset.</p>

Any business or enterprise is obliged to protect their workers through the public pension system (through the Medical ISSS) and Private (Retirement Plan)

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