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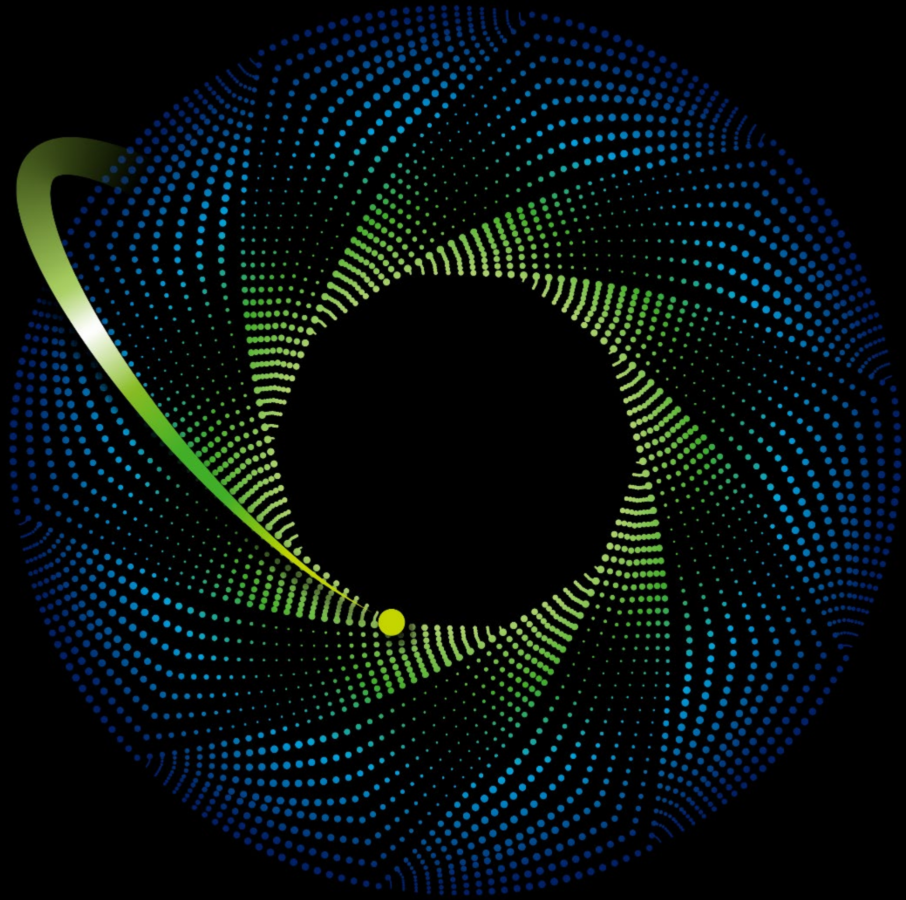
Tax Newsletter | El Salvador
September 2023



Tax Newsletter

Timely news and information on national tax issues

Centralized Treasury in the Transfer Pricing environment

Financial transactions through a centralized treasury are increasingly more common among multinational business groups. This type of centralized treasury plays a strategic role in the management of company liquidity.

In this respect, an entity with centralized treasury roles will generally operate as an administrator and consolidator of physical or digital cash balances, and even securities, of the other companies of the multinational group.

According to the OECD Transfer Pricing Guidance on Financial Transactions, it is necessary to have certain considerations for the proper implementation and compensation of the parties participating in these financial transactions.

1. Analysis of the benefits between the participants

The decision of the multinational group to participate in a Cash Pooling Arrangement should be based upon its realistically available options, considering that a group may obtain multiple benefits as a member of the Cash Pooling Agreement, others than an improved interest rate. The above implies the analysis of tangible economic benefits, considering the reasonableness of the business.

2. Accurate delineation of the Cash Pooling agreement

There are situations in which the Group's companies maintain debit and credit positions which, instead of functioning as part of a short-term liquidity agreement, become a long-term agreement. This would imply to delineate the transaction as a long-term deposit or loan, in which a higher interest rate would be expected.

3. Compensation of the cash pool leader

In general, a cash pool leader performs nothing more than a coordination or agency functions with the master account. Given such a low level of functionality, the cash pool leader's remuneration as a service provider will be similarly limited.

4. Determination of the arm's length interest rates

The Guidance indicates that **the determination of the arm's length principle for the interest rates of cash pooling transactions between related parties, can be a difficult exercise due to the lack of comparable arrangements between third parties.**

Generally, overnight rates (for amounts in USD) or Central Bank lending rates are used to analyze these transactions. However, it is worth noting that these comparable rates do not consider the debtor's solvency.

Another option for the comparability analysis is the use of short-term financial instruments (bonds), selected according to the credit rating of the debtor or the Multinational Group instead, applying currency, term, and country risk adjustments, according to the comparable transactions selected. For such purpose, it should be specifically analyzed on a case-by-case basis.

Cash Pooling is a financial strategy that allows related companies to manage their cash flows more efficiently and optimize the use of their financial resources, ensuring that cash is available at the right place, time, and currency.

For Transfer Pricing purposes, it is necessary to analyze their alignment with the arm's length principle.

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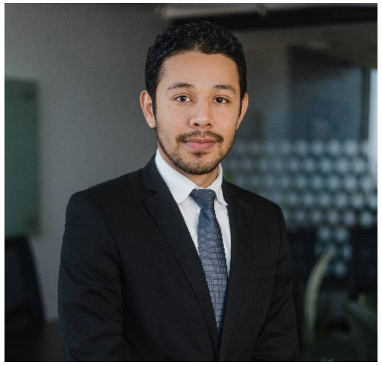

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Tax Calendar
September 2023

Use our 2023 Tax Calendar to keep informed about:

Tax Obligations before the Tax Office (Ministerio de Hacienda)

Municipal Tax Obligations

Payroll Management Obligations

September 2023

S	M	T	W	T	V	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

To learn more about **September's** obligations:

Download the 2023 Tax Calendar

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