

## Tax Newsletter

Timely news and information on national tax issues

# Amendments to the Income Tax Law in El Salvador



In April 2025, the Legislative Assembly of El Salvador passed an amendment to the Income Tax Law aimed at updating the income tax calculation table applicable to individuals, successions, and trusts domiciled in the country. This amendment, laid out in the corresponding legislative decree, introduces significant technical changes in the taxable income brackets without altering the already established general tax rates. Following is a summary of the main changes that were introduced, the new calculation table, the general effects for individual taxpayers, and the date of entry into effect of the amendment.

## Relevant Changes Introduced by the Amendment

**Increase in the exempt bracket:** The amendment increases the threshold for income exempt from the income tax from US\$ 4,064 to US\$ 6,600 annually, which represents an increase of 62.4% in the tax exempt base. In other words, the first US\$ 6,600 of an individual’s annual income (equivalent to a monthly income of up to US\$ 550) are now exempt from the tax, significantly broadening the segment of lower income taxpayers that will not have to pay this tax. We must recall that previously, only income of up to US\$ 4,064 annually was exempt, and thus this change benefits a larger group of salaried workers and individual taxpayers.

## New table of taxable income brackets

Article 37 of the Income Tax Law was amended with respect to the first two brackets of the tax calculation table for individuals, successions, and trusts. The new table of brackets and rates is now as follows:

Bracket	From (US\$)	Up to (US\$)	% Applicable	On the amount exceeding (US\$)	Fixed amount (US\$)
I	0.01	6,600.00	Exempt	Not applicable	Not applicable
II	6,600.01	9,142.86	10%	6,600.00	212.12
III	9,142.87	22,857.14	20%	9,142.86	720.00
IV	22,857.15	Thereafter	30%	22,857.14	3,462.86

*Table: Annual taxable income brackets and income tax calculation formula for individuals, successions, and trusts (after the 2025 amendment).*

As can be observed, the substantive change consists of increasing the lower end of the second bracket from US\$ 4,064 to US\$ 6,600, which shifts upwards the point at which the tax starts being charged at the rate of 10%, according to the formula of the table (10% on amounts exceeding US\$6,600.00, plus a fixed amount of US\$212.12).

## General Effects on Individual Taxpayers

This amendment has direct impacts on the tax burden of individual taxpayers of the income tax:

1. **Broadening of exempt taxpayers:** By increasing the annual exempt bracket to US\$ 6,600, many people that were previously subject to Income Tax are now totally exempt. For example, taxpayers with gross monthly salaries (before subtracting ISSS and AFP) of up to approximately US\$ 761 will no longer pay income tax, when previously only those earning up to US\$ 525 monthly were exempt.
2. **Reduction of the tax in the second bracket:** Those who have annual income that is slightly higher than US\$ 6,600 (that is, that fall under bracket II, up to US\$ 9,142.86 annually) will have a reduction in their tax payable compared to the previous table. Given that now the 10% is calculated on the amount exceeding US\$ 6,600 (and not on US\$ 4,064 as before), the initial portion of their income that is taxed at 10% is less, thus resulting in a lower income tax payable for that income range. In simple terms, a greater portion of their income is now tax-free or subject to the minimum rate.
3. **Impact on higher brackets:** For middle- and high-income taxpayers (brackets III and IV), the calculation formulas remain the same (20% and 30%, respectively) and the top end cut-off points do not change.

It is important to indicate that this amendment does not affect the taxation of legal entities (companies) or other income tax aspects, but rather is exclusively limited to modifying the calculation for individuals, successions, and trusts in accordance with the table above. Thus, the tax maintains its direct and progressive nature, increasing the minimum amount exempt to provide relief to lower-income taxpayers.

#### Effective Date of the Amendment

The amendment will go into effect eight days after its publication in the Official Gazette. This means that once the decree is published in the Official Gazette, eight calendar days must pass for the new brackets and provisions to be legally enforceable. As of the date of this article, the amendments had not yet been published, and therefore it is recommended to be attentive to the Official Gazette to verify the date on which these new regulations must be implemented.

Likewise, taxpayers must be on the alert for the updating of the income tax withholding tables (weekly, bi-weekly, monthly and semi-annually) applied to salary payrolls, based on the new brackets.

Companies, in their role as withholding agents, must adjust their payroll systems to start applying the exemption of up to US\$ 6,600 and the new ranges in the income tax withholding calculations for their employees.

It is important to indicate that this amendment does not affect the taxation of legal entities (companies) or other income tax aspects, but rather are exclusively limited to modifying the calculation for individuals, estates, and trusts in accordance with the table above.

More information:




**Federico Paz**  
Tax Partner  
[fepaz@deloitte.com](mailto:fepaz@deloitte.com)




**Jhonny Flores**  
Tax Consulting Senior Manager  
[jflores@deloitte.com](mailto:jflores@deloitte.com)

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Tax Obligations before the Tax Office (Ministerio de Hacienda)



Municipal Tax Obligations



Payroll Management Obligations

May 2025						
S	M	T	W	T	F	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	31

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



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## Contacts

### Federico Paz

Tax Partner

[fepaz@deloitte.com](mailto:fepaz@deloitte.com)

### Ghendrex García

Tax and BPS Partner

[ggarciaq@deloitte.com](mailto:ggarciaq@deloitte.com)

### Mario Coyoy

Transfer Pricing Leader for Central America

[mcoyoy@deloitte.com](mailto:mcoyoy@deloitte.com)

### Jhonny Flores

Tax Consulting Senior Manager

[jflores@deloitte.com](mailto:jflores@deloitte.com)

### Emerson Inocente

Tax Manager

[einocente@deloitte.com](mailto:einocente@deloitte.com)

### Alvaro Miranda

Transfer Pricing Senior Manager

[ajmiranda@deloitte.com](mailto:ajmiranda@deloitte.com)

### Rita Vega

Legal Services Manager

[ritvega@deloitte.com](mailto:ritvega@deloitte.com)

### José Ángel Lopez

Transfer Pricing Manager

[joselopez@deloitte.com](mailto:joselopez@deloitte.com)

### Cosette Fuentes

Legal Services Senior Manager

[cg.fuentes@deloitte.com](mailto:cg.fuentes@deloitte.com)



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