

THE FISCAL IMPORTANCE OF THE INVENTORY CONTROL REGISTRY

The tax legislation in El Salvador establishes a series of obligations and formal requirements that must be fulfilled to control inventories, being the principal obligations the following:

1. Keep a registry of the inventory control.
2. Practice a physical inventory at the start of negotiations and at the end of each fiscal period.
3. Develop a detailed record of the physical inventory that must be in legal document or act signed by the legal representative or proxy and accountant.
4. File the F-983 form signed by the legal representative or proxy and the accountant with the previously mentioned record attached, in the first two months of the year. This obligation applies to taxpayers with incomes equal or greater than 2,753 minimum monthly wages (US\$692,930.10), engaged in the production, manufacture or sale of movable tangible property, as well as service providers whose activity is materialized in the delivery of real or personal property.
5. Include in the Register, details of disposed or consumed assets; shrinkage, evaporation or expansion.
6. Register a summary of the inventory completed in the book of legalized Financial Statements.

The fulfillment of some of the obligations related to the inventory control constitutes a legal condition in order to have the right to tax credit deductions in the VAT, and the deduction of cost and expenses in the Income tax.

Not fulfilling with the determined obligations or requirements related with the inventory control may have as consequence:

1. In the VAT, the impossibility to deduct the tax credits coming from the purchase of movable goods (Art. 65 subsection 5° of the VAT law).
2. In the Income Tax, the impossibility to deduct the costs (Art.29 numeral 11 of the Income Tax Law).
3. The application of a fine equivalent to 0.5% on the equity or net worth that figures in the general balance minus the surplus for reevaluation of actives not realized, fine that cannot be less that nine monthly minimum wages (US\$2,265.30) (Art.243 of the Tax Code).

Should you have any questions, please contact our Legal Tax Department.

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