

Accounting Basics for Corporations in México:

A Guide for Business Owners



MEXTAX
ACCOUNTING SERVICES- CONSULTING- INTEGRATED SOLUTIONS

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Most Common Corporate Taxes in Mexico:

There are several federal and state corporate taxes that businesses may be liable to pay in Mexico. The most common or regularly applied taxes are:

- **VAT** - Value Added Tax/Sales Tax, known as IVA (Impuesto al Valor Agregado): 16% federal tax rate applied to all goods and services. There are some exemptions to IVA, and your accountant can advise you on the complete list of goods and services eligible for exemption. This is a federal tax.
- **Corporate Income Tax** – Known as ISR (Impuesto Sobre la Renta): 30%. Your taxable income can be reduced through legitimate business expenses (See Appendix A). This is a federal tax.
- **Impuesto sobre la nómina:** este es un impuesto estatal y varía de un estado a otro. Generalmente, entre 1 y 3%.
- **Payroll Tax:** This is a state tax and varies from state to state. Generally, between 1 – 3%.
- **Acquisition of Real Estate:** Another state tax that varies by state. Generally, between 3 – 5%
- **Other Taxes:**
 - o Lodging Tax
 - o Specialty Taxes:
 - o Import of alcoholic and some non-alcoholic beverages, tobacco, gasoline, and diesel
 - o Custom duties on imports or exports
 - o And more...

Accounting & Tax Filing Requirements in Mexico:

The Mexican tax authority is known as SAT (Servicio de Administración Tributaria). In Mexico, corporations (personas morales) must file monthly and annually declarations with SAT. To complete the filing requirements, each corporation must have a FIEL issued by SAT and a corporate bank account held in Mexico.

During the monthly filings, your accountant will register each transaction completed with your Mexican corporate bank account(s), including payment gateways and petty cash. This includes income, expenses, loans made to or made from the corporation by shareholders, and capital investments.

In addition to the monthly filings, there is an annual filing due on March 31 for the previous year. After the end of the first calendar year your earnings will be assessed, and a profit rate (Coeficiente de Utilidad) will be calculated considering the percentage that represents the profit earned. During your first calendar year, since you do not have a previous year to base a profit rate on, you will incur no monthly tax. However, you will be liable to pay income tax in March of the following year when the annual filing is presented. Depending on your income, this can be a significant amount and businesses should plan for this expense. The obligation to pay monthly income tax will begin in April of the second year.

Example:

- May 15, 2019: Date of incorporation
- May 2019: First month of declarations made to SAT by your accountant
- April 2019 through December 2019: Your accountant will continue to file declarations but no monthly taxes due to SAT
- March 31, 2020: Annual declaration for 2019 due & corporation may be liable for an annual income tax payment for the period from May 2019 through December 2019
- April 2020: Monthly declarations will be made to SAT and corporation will begin paying monthly taxes due to SAT (if applicable). At this time, you may also be liable for paying taxes dating back to January 2020 with the profit rate from 2019 being applied.

Your accountant should provide you with a monthly statement as proof of timely filing. If a tax payment is due, you will be notified at that time and be given the due date and instructions to pay using your corporate bank account. If you do not make your tax payment on time, you will need to contact your accountant they will need to request a new payment date that include late charges from SAT.

If you make a payment late but before SAT has notified you via email or site, you will only be assessed a late fee. If SAT notifies you via email or a site visit, you will be assessed a late fee and a fine.

FIEL Process:

A FIEL is an electronic signature issued by SAT that allows individuals and businesses to issue electronic invoices (facturas) and pay taxes. If you have a corporation and have given Mextax power of attorney, Mextax will request the FIEL for you. If you are an individual, you will need to request the FIEL personally with SAT.

The FIEL process can take anywhere from a few days to over a month, depending on the availability of SAT. Mextax client services will need the following information in order to request your FIEL:

- Incorporation documents with RFC of all legal representatives
- Fiscal address
- Rental contract, if applicable, for the fiscal address
- Proof of address matching the fiscal address
- Copies of IDs from legal representatives

If you used Mexlaw to create your corporation, we will have access to your incorporation documents and copies of the IDs. Mextax client services will review your rental contract to ensure it meets the very specific requirements of SAT.

Banking & Bank Account Information:

All Mexican corporations must have a Mexican bank account. Mextax will assist you in opening a business bank account (The bank, depends. With your permission, your Mexlaw attorney can provide a Mextax accountant power of attorney to open a bank account on behalf of the corporation. The process of opening a bank account and signing the bank contract takes about three weeks.

For bank accounts that Mextax opens, Mextax will have faculties to complete administrative tasks. At the first opportunity, you must go to the bank and revoke our faculties and ensure you or a legal representative from your company are solely responsible for the bank account.

If you do not have your temporary or permanent residency in Mexico, it is important that you check "business" as your reason for travel on your Mexican immigration form given to you on your flight or when you cross the border. This will allow you to conduct business transactions, such as changing the legal representative on the bank contract. The bank will not be able to accept any changes if "tourism" is checked on your immigration permit.

Business accounts are only in Mexican pesos and do not offer credit or debit cards. If you wish to open an account in USD, please let Client Services know and they will coordinate with CiBanco.

An initial wire transfer of \$20,000 MXN is required to activate the account. The initial deposit takes about two weeks to appear in the bank account. If the transfer is not completed, the bank account will not be open.

This could cause **significant** problems for your corporation in the future, and Mextax will not be held responsible for any failure on your part to complete the transfer.

Cibanco will provide the corporation with a token that allows you to make bank transfers to pay bills, download bank statements, etc. If you are not in Mexico, Cibanco will send it to you via international carrier to your address. You will be billed the shipping fees.

Mextax **cannot** make any transfers from the corporation's bank account, even at your written request.

Monthly Accounting Requirements:

To ensure timely filing of your monthly fiscal obligations to SAT, Mexico's tax authority, your accountant must receive your bank statement and the transactions detail report before the 10th of each month. This report should include the transaction date, amount, beneficiary, and description of the expenses or deposits. We recommend downloading your bank statement into an Excel sheet, and then adding a column with the description of each transaction. This information is required by your accountant to properly report all transactions to SAT. Your accountant will need 5 business days to process your accounting. If your information is not received on time, you could be at risk of receiving late fees and a fine from SAT.

Additionally, if you have any transactions during the month (deposits or withdrawals) that were paid by the shareholder, you must include this with the transaction detail report.

All transactions will need to have an invoice (known in Mexico as a factura) associated with them and must be in the name of the business. When making a purchase, you can request a factura from the supplier. Before making any significant purchases, it is best to check in with your accountant, so they can properly advise you on the best fiscal strategy to reduce the amount of taxes you may be liable for.

Important: If a shareholder is going to use their personal bank account to make a payment on behalf of the corporation, it is highly recommended to reimburse the shareholder from the corporation's bank account to their personal account before the end of the month.

Facturas for Income & Expenses:

One of the most important items to remember when conducting business in Mexico is the factura. A factura is an electronically issued invoice that is automatically registered with SAT. When you make any purchases or receive any income, a factura must be issued.

When you make a purchase from any supplier, it is important to request a factura. They will require some information from you including:

- Company name
- Company RFC number
- Fiscal Address
- Use of the Goods (Merchandising, General Expenses, Investment, Other)
- Email to send the factura (usually yours or your office administrator - not Mextax)

Without a factura, expenses are not deductible. Facturas should be issued for any purchase regardless of the amount - everything from office supplies to cars and property will have facturas associated with them.

Just as your suppliers must issue you a factura, you must issue a factura to your customers. This factura will represent the income and tax you collected. You will need the same information from your customer that your suppliers will ask of you (listed above). You have a few options for issuing facturas:

- Use SAT's website.
- Purchase a software that issues facturas o Mextax can make a few recommendations but the decision on which to use is yours.
- Request Mextax issue your facturas o Additional monthly fee - Client Services can provide you with a quote for this service.

Additional Income & Expense Reminders:

- You can use cash to pay for expenses. However, to be considered deductible, the total cannot exceed \$2,000 pesos for an individual purchase.
- Expenses are only deductible if they are legitimate business expenses. We have included a list of some deductible expenses in the appendix of this guide.

Working with Property Managers:

It is a very common practice for property managers to receive the rental income from a client's property into their bank accounts, pay the expenses on behalf of the client, and then advise the client that they have a tax credit or there is no tax associated with the income. This is **not the correct way to handle the transactions of your property**, and your property manager should not be administering your account in this way.

The income must be received into your corporate bank account, and if the property manager pays the client's expenses, he must collect the corresponding invoices in your company's name. Then, the property manager should request the reimbursement or an advanced payment, as well as issue a factura to your company for their services. The payment of the property manager factura must be made from your business bank account.

Please note: Mextax will not accept any communications on behalf of the corporation from third parties (such as property managers). All information sent to Mextax must come from you, our client.

Shareholder Contributions - Loans vs. Capital Investments:

There are two ways to inject money into a company - a loan from a shareholder or a capital investment by a shareholder. In both cases, you must notify your accounting manager before any investments or loans are made so that we can give you the best advice for completing the transaction. Additionally, there may be legal documents required to complete this process.

Imports & Exports:

If you wish to import or export products to or from Mexico in the company's name, you will be required to request an import permit from SAT known as a padron de importadores. Before you apply for the permit, you will need to contract the services of a customs broker. The customs broker will provide their numero de patente or broker number. Then, Mextax can assist you by applying for the import permit on the SAT website using your corporation's FIEL (electronic signature). The processing time can vary and may take as long as 15 to 20 business days.

Suspending your Corporation:

If you want to cease operations but do not wish to close the corporation completely, you do have the option of suspending the corporation with SAT. Mextax can assist you with this for an additional fee. SAT allows a company to be suspended for up to two years, and there is an option to extend to a third year. They will not allow a company to be suspended for more than three years, and at that point the company would need to continue with its activity or start the process of liquidation.

Closing your Corporation:

If you wish to close your corporation, you will need to retain the services of an attorney as there are amendments that need to be made to your incorporation documents.

Once those amendments have been made, Mextax can begin the process necessary to close the corporation with SAT. The liquidation of a company is a process that is closely supervised by SAT. Before authorizing the liquidation of the company, SAT ensures that all the obligations of the company, mainly in matters of taxes and accounts payable, have been met. Even when presenting the notice of liquidation of the company to SAT, the company may continue to have commercial operations, but the income will be exclusively used to cover the pending obligations of the company. It is highly advisable when presenting the liquidation of the company to SAT that all obligations of the company have been met as this will allow the process with SAT to be completed in a timely manner. If not, the process could take several months.

When to Contact Your Accountant:

- If you buy or sell property, please notify Mextax for purposes of calculating capital gains.
- If starting a construction or remodeling project, please notify Mextax so they can properly register the accounting entries for the project.
- If you have any changes in commercial activity, please notify Mextax prior to undertaking these new activities so they can properly register the changes with SAT.
- Any time you have any unusual or out of the ordinary transaction.
- Any time you have a question or concern about your accounting or tax obligations.

Appendix A - Deductible Expenses/Assets:

All of the items listed below are deductible as long as they are supported by a factura (electronic invoice). The factura must be in the name of your corporation for the expense to be deductible. If you have any questions as to whether an item is a deductible expense, please contact the accounting manager.

1. Furniture: Desks, chairs, file cabinets, and depending on your business activity: dining room, kitchen, beds, curtains, etc. Considered an asset (investment) – Monthly deduction is the depreciation at the rate of 10% Annual.

2. Office supplies

3. Predial Tax: (Property tax)

4. Property Maintenance and Repairs: Provided the property is already properly registered with SAT as an asset of the company. This does not include remodeling or redesign. Contact the accounting manager before making any major changes to your property.

5. Computer: Considered an asset (investment) – Monthly deduction is the depreciation at the rate of 30% Annual.

6. Computer Accessories: Such as a mouse, keyboard, and storage devices.

7. Business Cards

8. Vehicle: Is considered deductible up to \$175,000 MXN at a depreciation rate of 25% each year. You may also deduct the expenses, such as fuel, parts, maintenance, and accessories - for the vehicle owned by the business.

9. Domains, Hosting and Web Advertising

10. Software Licensing

11. Advisory Tax and Accounting Service: We provide an factura which is 100% deductible for accounting or consulting services.

12. Legal Advice

13. Advertising Expenses: Any medium such as television, radio, newspapers, magazines or the internet.

14. Payroll: If your business requires personnel for its operation, the payroll is deductible, but it must comply with the additional fees of IMSS, INFONAVIT, and withholding. Special requirements apply - Please check with the accounting manager to ensure your company meets the requirements.

15. Employee Expenses: Deductibles include employee expenses, such as uniforms, dining, transport service, and additional benefits.

16. Training & Seminars

17. Freelancers

18. Cleaning Items

19. Interest on Loans: Must have a loan contract in place. Please contact the accounting manager before accepting a loan.

20. Bank Fees

21. Air Travel Expenses: If you or anyone else travels to carry out a business activity, you can deduct it, provided you have the factura receipt and the passenger can be related to the company as a shareholder or employee.

22. Shipping cost: Depending on the activity of the company, these expenses may be deductible.

23. Cellular Phone Service: The monthly factura must be issued to the corporation.

24. Landline and Internet Service

25. Rental: Commercial property rental for the business is 100% deductible.

26. Insurance: Insurance premiums of all movable and immovable property (car, home, business, building, etc.) are deductible.

27. Charity: Must not exceed 7% of the previous year's profit. If there is no profit, you cannot deduct charitable contributions.

28. Building Depreciation: Monthly deduction is 5% annual depreciation rate.

Just as there are deductible expenses, you must also be aware of expenses which cannot be declared as business expense, even with a factura.

Personal expenses such as:

- (a) Groceries
- (b) Entertainment
- (c) Clothing
- (d) Articles for personal use
- (e) Alcoholic beverages

or

- Any payments made through the company bank account without a factura
- Payments made in cash for over 2.000,00 pesos.

Factura with incorrect tax information (name, RFC, and address)