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# Latin America Tax Systems

Providing clarity on the complexity of different tax regimes within Latin American countries.

**PHANI SABNIVISU**
Founder & Executive Director

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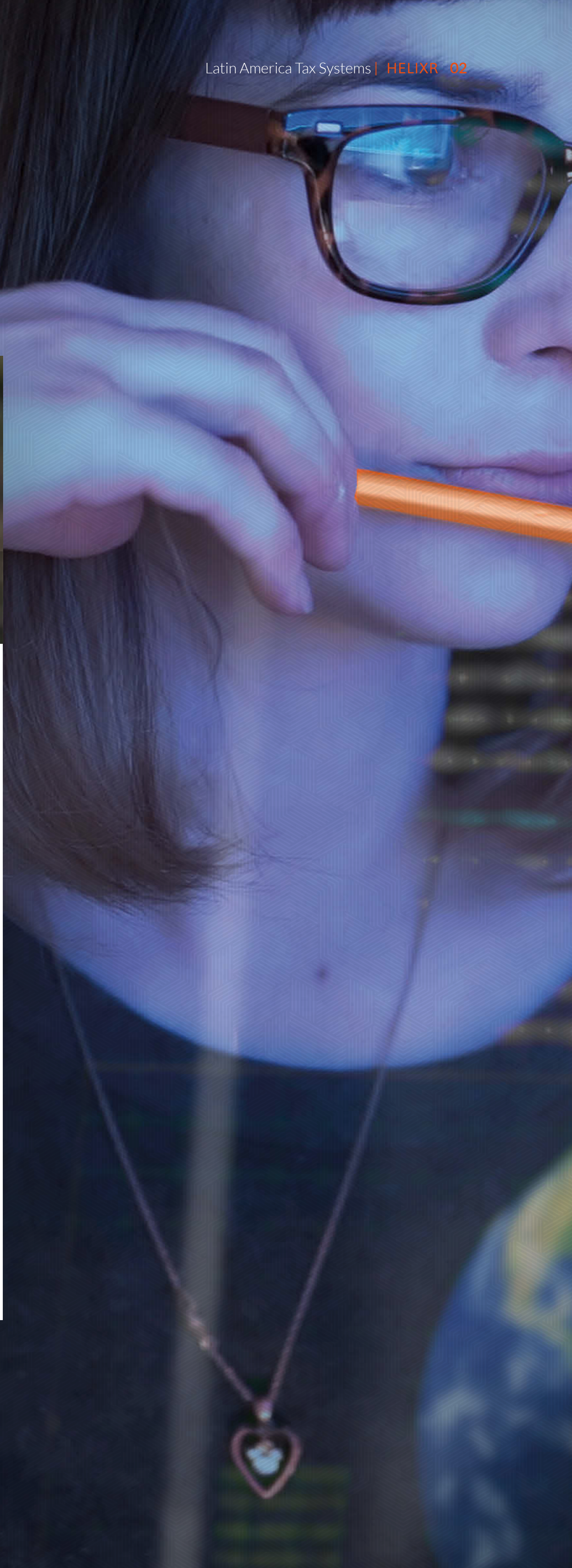

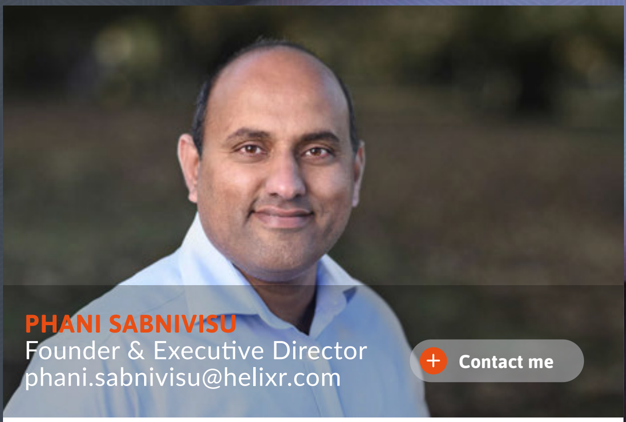

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## Introducing our LATAM Expert

Phani is a founder and Executive Director of Helixr, who leads our Global Tax Technologies practice.

With more than 25 years of experience in ERP systems, various external tax engines, and process automation technologies, Phani has extensive knowledge and insight into the challenges faced by tax functions. He has a collaborative approach to leading his team of experienced consultants in delivering tax solutions to the highest standard.

Phani has previously delivered complex tax systems for APAC, Europe, and Latin America regions for multiple Global clients and is considered a trusted expert in the most complicated LATAM tax systems, like Brazil and Argentina. He has guided many multinational companies across different industries to optimise their operations by embracing the best practices and data models and using appropriate tax technologies.

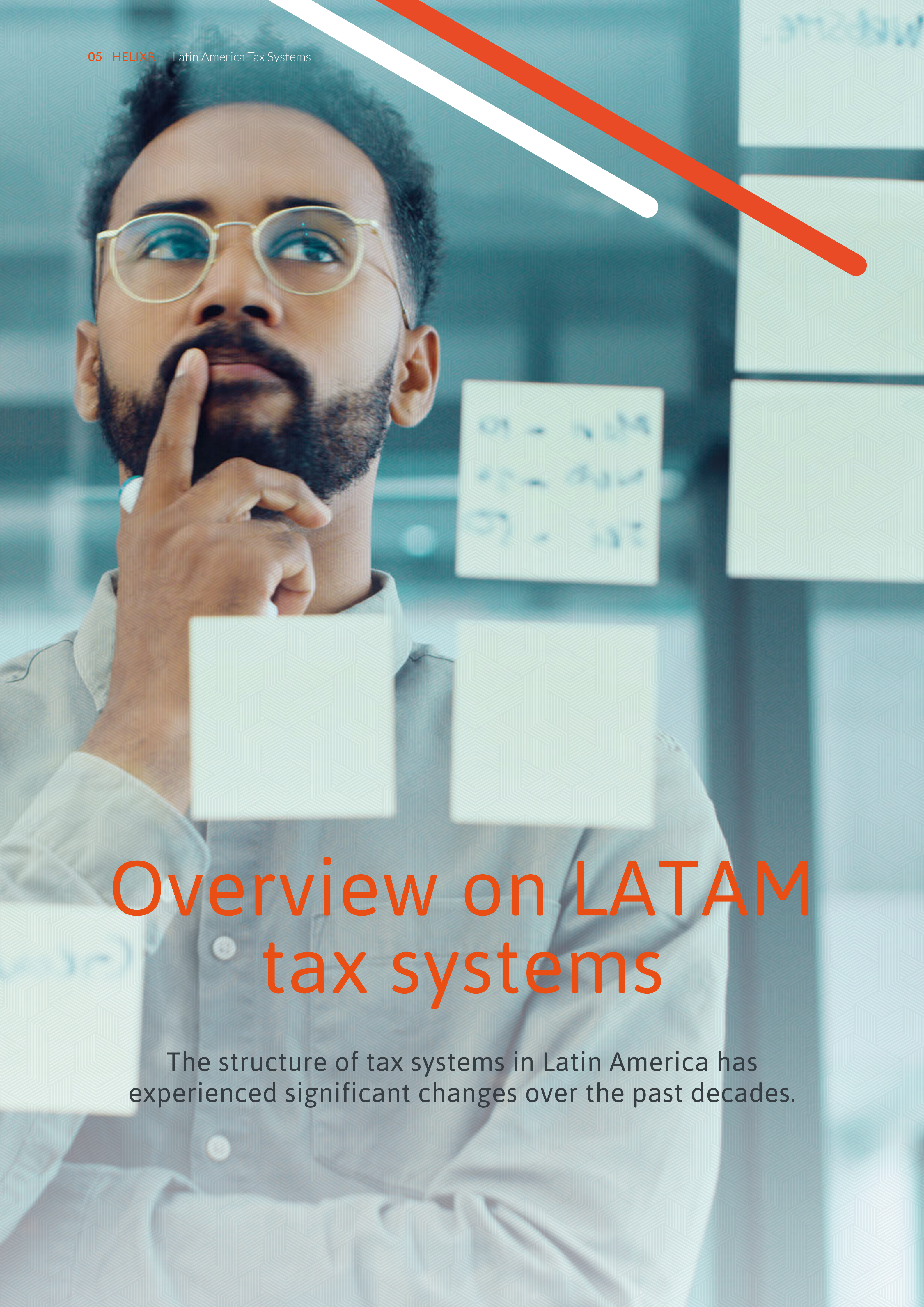
# Executive Summary

## This whitepaper aims to raise awareness of the complexity of different tax regimes within Latin American countries.

It explains the evolution of tax policies in different countries and how advanced some countries are, compared to other Latin American countries.

The whitepaper covers the digital transformation initiatives taken by the various tax authorities and how they influence the ERP landscape for multinational companies operating in LATAM and the rest of the world. The author provided an in-depth analysis of the technological requirements for electronic invoicing and digital compliance requirements for different countries.

Finally, this whitepaper describes how Helixr's Finance & Tax Technology team can work like a trusted partner for multinational companies to navigate through tax complexities and provide support to deploy relevant tax solutions as part of ERP solutions and Business restructuring initiatives.



# Overview on LATAM tax systems

The structure of tax systems in Latin America has experienced significant changes over the past decades.

> "Tax complexity itself is a kind of tax."
>
> **MAX BAUCUS**
> Former US Ambassador to China

One important outcome of this evolution of tax structures in Latin America has been a direct to indirect tax ratio that is less than one, markedly tilted toward indirect taxation, especially by comparison to the tax structure of "developed" countries.

There has been:

- a rapid increase in the relative importance of consumption taxes led by the introduction and rise of the VAT, which has more than compensated for some reductions in excise taxes;
- a very significant decline in the relative importance of taxes on international trade, led by a decrease in customs duties following tariff reform and despite the importance of export taxes in Argentina;
- a sustained stagnation of income taxes led by weak collections from the personal income tax only partially offset by the better performance of the corporate income tax, especially in more recent years with higher profits associated with the international prices of natural resources;
- an increase in the importance of social security contributions and payroll taxes; and finally,
- a complete stagnation of property taxes at very low levels of taxation.

## History on South American tax systems

Latin American countries were once a part of the Spanish and Portuguese colonies. During that time, the tax policies gave preferences to the wealthy and elite people rather than the majority of the population. Gradually, the authorities made many reforms to their tax systems to improve efficiency.

The first round of tax reforms and changes in tax policies came in around 1970, whereby the tax systems moved away from progressive taxes and concentrated more on public spending to tackle the inequality in society. At the same time, Value Added Tax (VAT) was first introduced into the region. Brazil and Ecuador were among the first to introduce VAT, and the rest of the countries in the region followed very closely.

In the early 2000s, taxation has been the central focus of all South American governments' fiscal policy. They increased the tax rates and introduced new taxes to increase spending on the public and bring equality among them.

These reforms led to the South American region being one of the most complex tax systems in the world. Tax systems are different from one country to another as many tax instruments, regimes, and agencies are involved in their regulation. The management of the tax systems varies based on the country's political and administrative organisations.

## Evolution of tax systems

The tax system was changed over a period of time through various fiscal policy changes and tax reforms. Some countries like Argentina and Brazil have concentrated more on indirect taxes, and they have managed to increase the tax revenue by 50%. The ratio between Tax revenue vs GDP has grown considerably for these two big countries. On the other hand, countries like Mexico and Columbia have adopted more straightforward tax regimes, especially Indirect taxes.

The complexity of indirect taxes is considerably much more than direct taxes. A particular transaction between buyer and seller could attract multiple federal level taxes and also, at the same time, state or provincial level taxes in Brazil and Argentina. For example, when a product is sold to a customer in Brazil and Argentina, the invoice (e-invoice / /nota fiscal) usually contains federal and state-level taxes. Additional complexities in the case of Brazil is the social contribution taxes based on the revenue of the seller. At the same time, it is VAT percepciones and retenciones at state and city level in the case of Argentina. In other Latin American countries, the same sales invoice will have simplified indirect taxes similar to the European countries' Value Added Taxes. This is the case for Mexico and other Central American countries.

These differences add complexity to the ERP systems' landscape for the big companies who want to expand their operations into the Latin American region. The other important aspect that influences the ERP landscape for Global companies is the tax determination rules.

# Dynamics of Tax rules

Tax reforms recently undertaken in Latin America have aimed at attaining neutrality by designing the VAT-based systems, introducing greater equity in the distribution of the tax burden, increasing collection through simpler schemes, facilitating taxpayers' fiscal compliance and attaining greater efficiency in resource allocation.

## Argentina Tax system

VAT is applied at all stages of the production and sales processes. The taxes that are recognised in the immediately preceding stage are deductible from the output tax payable.

The following are the different types of taxes in Argentina:

- **Federal Taxes** – Income tax, Tax on Minimum Presumed Income (TMPI), VAT, Financial taxes on Bank transactions and Personal asset transactions.
- **Provincial Taxes** – Turnover tax and stamp duty are provincial taxes collected by the state governments.
- **City tax** – One city acts like a province and collects taxes, i.e. Buenos Aires.
- **Municipal taxes** – More than 2000 municipalities in Argentina collect taxes on rates and assessments.

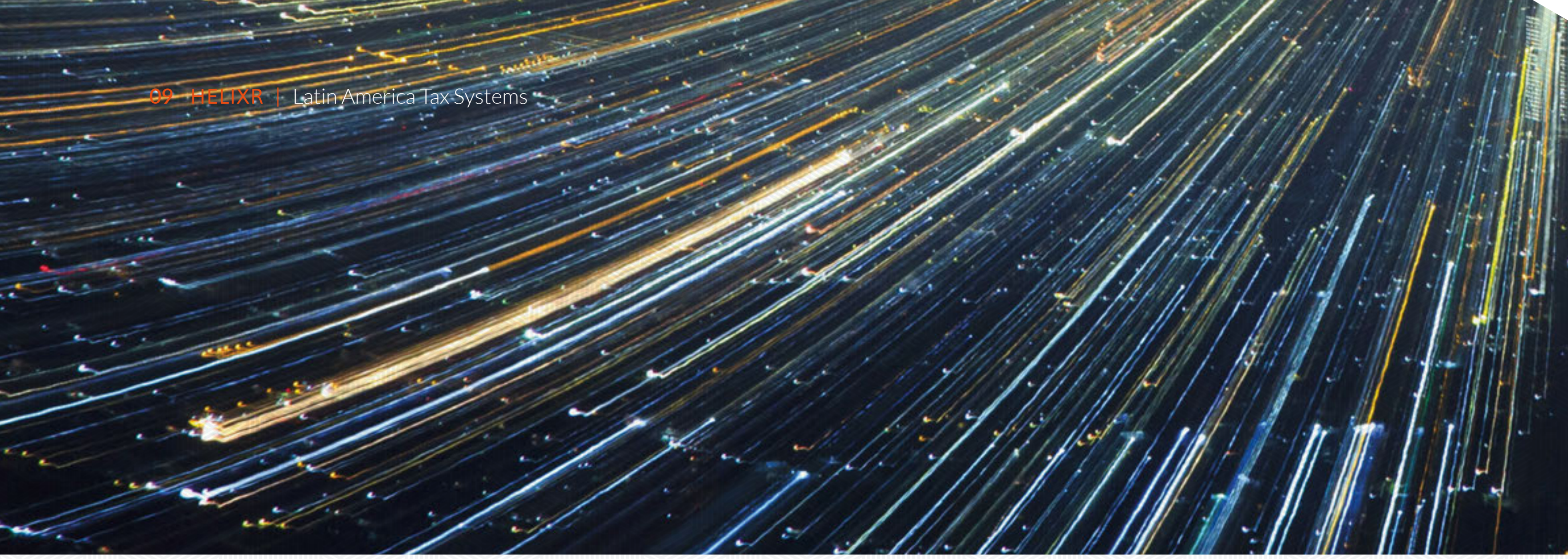
**Retenciones:** The ERP system becomes even more complex to determine who will be responsible for collecting taxes and making payments to the relevant tax authorities. The collection mechanism was defined for both VAT and Turnover Tax as a form of "Withholdings" (Retenciones). Withholdings are performed by buyers appointed as Withholding Tax Agents (WTH) in the respective federal (VAT) and provincial (Turnover Tax) regulations. In general terms, the WTH agent performs Withholdings upon payment to suppliers (remitting a lower payment and issuing the Withholding tax certificate).

**Percepciones:** Similar to Retenciones, but in this case, the seller acts as a WTH agent by applying the reverse Withholding taxes. VAT and Turnover Tax regulations provide provisions for this type of collection mechanism. Reverse Withholding taxes are included in the invoice as an additional amount to be paid by the buyer. The reverse Withholding amount will be deemed as a tax amount paid for the buyer, and it should be included in the VAT/Turnover tax return in the same period when the reverse Withholding tax was applied.

**Buenos Aires** –The city regulations have provision for Retenciones and Percepciones. The percentage rate of the Withholding or reverse Withholding taxes is determined by the tax group assigned to each organisation in Buenos Aires by the City tax authorities.

**Impact on ERP Deployments:**

- Managing the different types of taxes that should apply to a transaction and determining the tax rates requires special tools or functionalities within the ERP systems. Country specific solutions are needed to determine the correct taxes and to perform the tax calculations. Usually, the companies who use SAP as their ERP system activates or configures their system with the Argentina Localisation content.
- Determination of the collection agents for VAT and Turnover Tax at all three levels of Federal, Provincial and City taxes is complex, and relevant information needs to be kept in the system to derive the correct tax.
- In general, the global ERP templates does not have the process of issuing and receiving Withholding taxes under Retenciones and Percepciones, and it is entirely different. Global templates require modification to accommodate these new processes for Argentina. This new process impacts both procure to pay and order to cash end to end process in terms of recognising short pay or accepting the Withholding tax certificates.



## Brazil Tax system

Brazil has a complex system of corporate taxation in which the federal government levies:

- Corporate income tax (IRPJ);
- Social contribution tax on profit (CSLL);
- Federal value-added or excise tax on manufactured goods (IPI);
- Financial transactions tax (IOF);
- Excise tax on cross border royalties and services (CIDE);
- Social security financing tax on revenue (COFINS);
- Social Integration Program tax on revenue (PIS/PASEP);
- Employer social security contributions (INSS);
- Rural property tax (ITR).

The Brazilian states and the Federal District of Brasília, 27 in total, impose a Value Added Tax (VAT) on the circulation of goods and telecommunication and transportation services (ICMS) and taxes on inheritances, donations (ITCMD), and motor vehicles (IPVA).

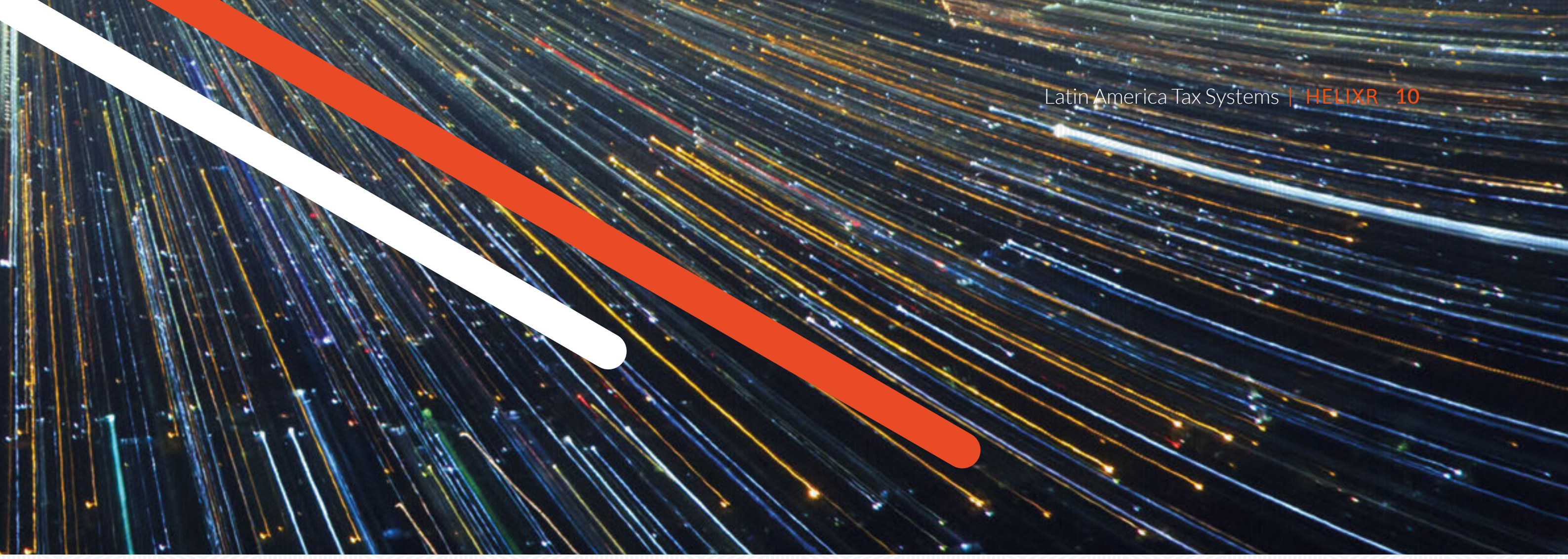
Municipalities and the Federal District charge taxes on services (ISS), urban property (IPTU), and transfers of urban real estate (ITBI).

Brazilian requirements around the calculation of taxes and the information required to support the calculation basis in the electronic invoice (Nota Fiscal) are complex. For example, turnover, geographical location, and the tax status of the vendor/customer determine whether to apply reduced social contribution tax rates. Similarly, the type of products and to whom they are sold determines the tax rates and the applicability of the State and Federal level taxes.

The taxpayer who is responsible for issuing the Nota Fiscal (electronic invoice) is also responsible for specifying the references to the tax legislation whenever a reduced or special tax rate is applied to the transaction. These types of tax rules and requirements increase the complexity of the ERP solution and the cost of maintaining the systems.

**Impact on ERP systems:**

- The determination of different taxes and rates to be applied is based on several attributes of the buyer, seller and the goods and services involved in the business transaction. This means the master data standards that are part of the global template process or solution for large corporates require amendments and new local processes need to be defined.
- In the case of SAP systems, Brazil Localisation content has delivered approximately 15 new fields to capture the information about suppliers and customers in their master data.
- Similarly, Material master information has additional fields to determine the required parameters for tax calculations.
- Several other attributes are required to prepare the Nota Fiscal, and they are determined as part of the tax calculations. For example, the CFOP code represents business activity – sale, purchase, transfer, etc. Similarly, the tax situation codes determine whether the standard tax rate is applied or if it is reduced/exempt.



## Mexico Tax system

Mexico is a Federation made up of 32 States, and each State, in turn, is made up of municipalities. The Mexican constitution establishes the jurisdiction for each level of government and, thus, different taxes apply. Federal taxes are the primary level of taxation in Mexico, while state and municipal (local) taxes are more limited. In practice, States and municipalities receive budget allocations from federal taxes that are collected within their borders.

Servicio de Administración Tributaria (SAT) is the central government body or agency in charge of collecting federal taxes and monitoring compliance. It has the character of a decentralised body of the Ministry of Finance and Public Credit (SHCP) that is responsible for applying tax and customs legislation. It ensures individuals and corporations (entities) pay their respective taxes by contributing to the public expenditure of the State through the collection of said taxes. The other key responsibility of SAT is to design and evaluate the tax policies in Mexico.

There are three types of taxes Federal, State and Municipal taxes, such as the following:

**Federal Taxes:**

- Income Tax (ISR): ISR is a tax applied to the income acquired, except for inheritances and donations. It is a type of direct tax since it directly taxes the sources of wealth. The ISR is applied to individuals, legal entities, and residents abroad who receive income from Mexico. The ISR rate is not fixed since it varies between 30% for legal entities and for individuals up to 35%.
- Value Added Tax (IVA): This type of lien is an indirect tax. Taxpayers do not pay it directly, but it is being transferred or collected by a third person until it reaches the final consumer.
- Special tax on Production and Services (IEPS): This tax applies to the production, sale or import of gasoline, alcoholic beverages, beer and tobacco. This tax is applicable for specific industry sectors only.

**State taxes:**

- State taxes are only applicable within the border of each state and do not transfer to others. Hence, there are many different types of taxes at each state level.
- Payroll taxes
- Tax on entertainment and public entertainment
- Tax for the provision of hosting services.

**Municipality / City taxes:**

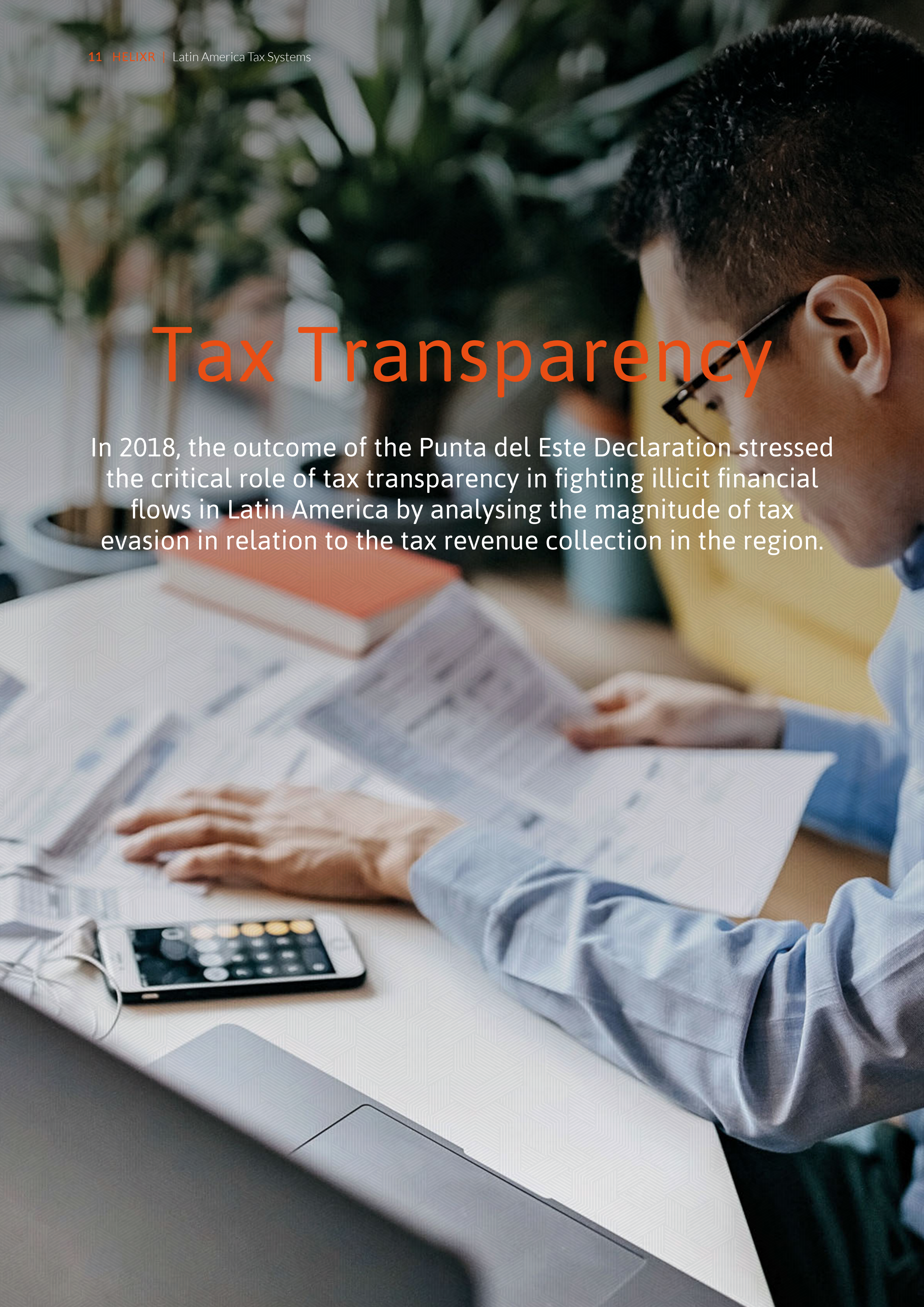
- Property taxes
- Property acquisition tax and transfer of domain.

**Impact on ERP systems:**

- There are special tax identification numbers that need to be maintained in the ERP system to generate the information in electronic invoicing. These attributes are vital in determining the different taxes and rates.
- Besides the tax number, the government of Mexico also classifies the contributors into two types – Goods seller and Service provider.
- As part of the recent tax reforms, the government changed the legislation to make VAT and IEPS on a cash basis. Taxes need to be reported only cash flow basis. ERP system setup also needs to be modified to accommodate this change. This may differ from the global ERP templates usually have in big corporations.
- Since some of the taxes are based on cash basis, there is a requirement to report the payments received or paid electronically with the underline invoice details. This increases the complexity of the ERP systems for Mexico.

# Tax Transparency

In 2018, the outcome of the Punta del Este Declaration stressed the critical role of tax transparency in fighting illicit financial flows in Latin America by analysing the magnitude of tax evasion in relation to the tax revenue collection in the region.



The Punta del Este Declaration was launched as a partnership between the Global Forum, its Latin American members and a number of regional and international organisations and development partners: the Inter-American Centre for Tax Administrations, the Inter-American Development Bank and the World Bank Group.

The objective of this Latin America Initiative is to maximise the effective use of the information exchanged under the international tax transparency standards to tackle tax evasion and avoidance, corruption and other forms of illicit financial flows. To effectively address those issues and raise resources for development and sustainable growth, Latin American countries are committed to:

1. Explore the full range of possibilities for administrative cooperation provided by international agreements, including the Convention on Administrative Assistance in Tax Matters,
2. Improve transparency, in particular with respect to beneficial ownership, and
3. Build synergies in the region.

Latin American countries prioritise tax transparency and EOI to tackle tax evasion and mobilise domestic revenue. They are building robust EOI infrastructures by establishing EOI units and allocating human resources and technical tools. Nevertheless, EOI capacity building for tax administration staff needs to continue. Although Latin American countries have significantly expanded their EOI networks, most of them are still making very few information requests. The implementation of the AEOI standard is gaining ground, with nine Latin American countries already exchanging financial account information until 2020.

Transparency and exchange of information (EOI) for tax purposes is one of the instruments available to tackle illicit financial flows. It requires governments to ensure the availability of legal and beneficial ownership information, accounting and banking information, and access to that information and their effective exchange with foreign partners. This allows tax authorities to have a complete picture of their taxpayers' global affairs to address the issue of tax evasion and enhance domestic resource mobilisation (DRM). Beyond tax evasion, tax transparency is also a powerful weapon against other forms of IFFs such as corruption and money laundering.

As a result of this initiative more and more Latin American governments are pushing for digital transformation programs by capturing the data through the exchange of information request (EOI) or an automated exchange of information (AEOI).

These digital transformation programs increased the complexity of the ERP landscapes and the new ways of working for the current tax functions. The challenge lies in coping with the continuous

Transparency and exchange of information (EOI) for tax purposes is one of the instruments available to tackle illicit financial flows.

# Electronic Invoicing models in Latin America

It is best practice that big corporates exchange large volumes of data electronically with their counterparts.

## Overview

Large pharmaceutical and process companies issue their purchase orders electronically to fulfil their contract manufacturing requirements; similarly, sales invoices are issued to the big wholesale distributors and pharmacy chains.

There are several ways the companies exchange their sales invoices electronically. The most common method is to have an electronic data interchange (EDI), a direct connection between the seller's and buyer's systems. In some cases, companies use a third-party service to exchange invoices.

This initiative from private sector companies has been recognised by several governments and is seen as an opportunity to reduce tax gaps. Especially in the LATAM countries, there are several areas where the VAT gap is causing an approximate 20% dent in public revenue. For example, some of these gaps are:

- Cash payments for the exchange of goods without receipts and tax returns lead to a loss of VAT and income tax for the revenue department.
- Invoicing using the wrong amounts in exchange of goods.
- Invoices issued but goods are not supplied.

These kinds of tax evasion business activities have become the biggest problem for South American countries since the 1970s. Revenue departments of the relevant governments started collecting vast amounts of data using the Data lake/Big data concept, and with the help of Artificial Intelligence, they have started identifying the VAT gaps.

Considering all fiscal documents, the invoice provides the most complete information for tax authorities. Hence, the governments started to mandate that companies/taxpayers only exchange invoices in electronic format. The invoices data also needs to be shared with the tax authorities before or after the shipment of the goods.

In Latin America, country-wide projects were launched by the tax authorities to reduce tax evasion. Chile was the first country in LATAM to introduce voluntary electronic invoicing in 2001. Brazil and Mexico are also one of the early adopters and made e-invoicing mandatory for all businesses with a very few exceptions.

From a technology point of view, the key challenges for any ERP deployment are:

- The real-time integration of electronic documents such as sales, purchase and transportation invoices into AR and AP processes within ERP systems.
- As explained in the previous sections, Latin American countries' tax systems are very complex, with several taxes and taxes due at the time of the movement of the goods that do not add any value. Hence, tax determination in sales and purchase transactions seems to be one of the critical challenges, and the exact needs to be reported correctly in all the electronic invoices.
- The e-invoicing structure is most comprehensive, with more than 500 different XML segments in an invoice to report the business transaction in real-time with the various tax authorities.
- Depending on the industry sector, extensive supply chain data needs to be provided in electronic invoicing. For example, pharma and process industries are expected to report the regulatory information, batch traceability, serialisation data, etc. This proves that integrating finance and supply chain data is critical for generating electronic invoices.

**Six Latin American countries reported collecting additional revenue as a result of EOIR (i.e. electronic invoicing) over 2014-2020, amounting to a total of EUR 298 million.**

The complexity of legal requirements and the organisation's size drive the requirements for technology. In the case of Brazil, to issue Nota Fiscal electronically, usually, companies rely on bolt-on tools to the ERP systems. For example, SAP has built-in integration with SAP's bolt-on solutions like SAP Nota Fiscal Electronica and SAP Tax Declaration Framework. In other countries, like Colombia, Argentina and Mexico, most companies have either bolt-on tools or custom developments in their ERP systems to integrate the data with the authorised service provider's systems, for reporting the electronic invoices and getting the necessary approvals.

The tax authority in the country mandates the organisations on the model through which the electronic invoices needs to be reported and validated. Refer to the below pictures for the different models:

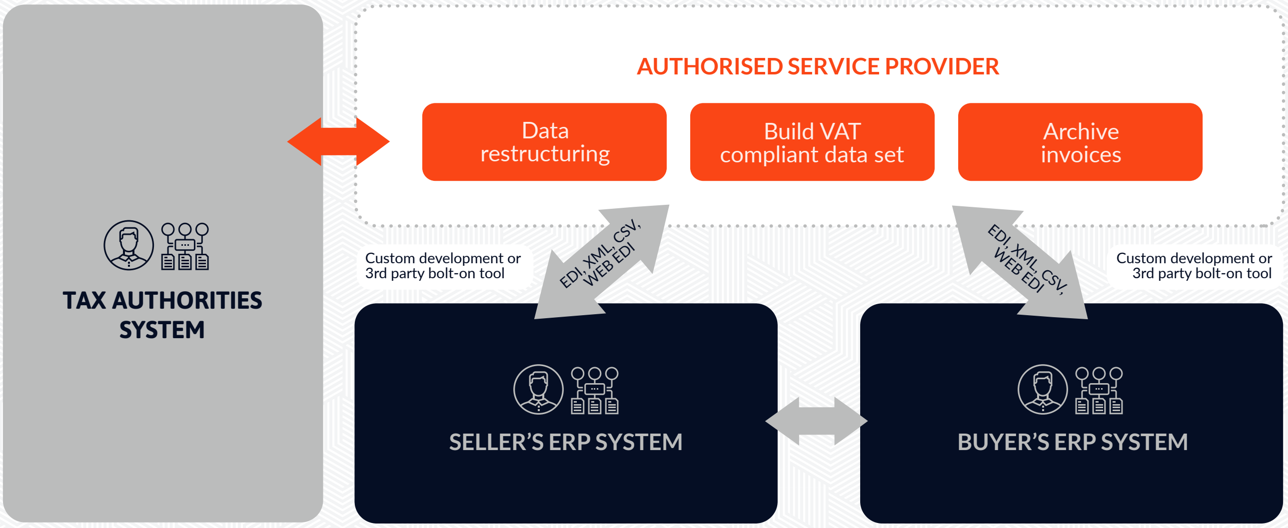



**Figure 1:** Tax Realtime reporting via Service provider. This model is applied in Mexico, Colombia, Argentina, Peru and other Latin American countries.

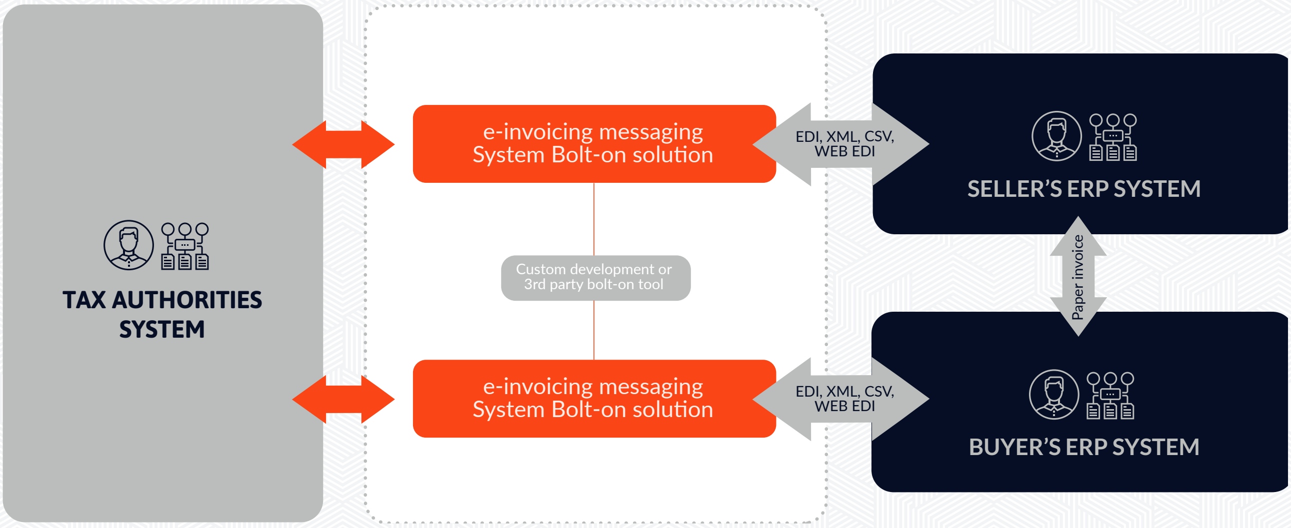



**Figure 2:** Tax Realtime reporting - Directly connected with Tax Authorities systems

## Impact on ERP deployments:

### Technical infrastructure:

Companies need to source new technological tools to communicate with the tax authority systems based on the tax authority mandate. For example, in Brazil, if a large organisation uses SAP as their ERP system, they might have to purchase another SAP server to install SAP Nota Fiscal Electronica and additional functionality or features in the SAP Process Orchestration system. The other alternative is to procure a third-party bolt-on tool; for example, MasterSAF DFE can be integrated with any ERP system and acts as a messaging system with the tax authorities system (SEFAZ).

In other countries like, Colombia and Mexico, big corporates use third party bolt-on tools from authorised service providers. For example, EDICOM e-invoicing solution is one of the popular tools in the market along with Invoiceware and Sovos.

### Complex Business models:

In order to simplify their selling process, some organisations use an agency model to sell their products. This is very common in pharma companies, whereby an agency sells the products on behalf of the pharma company to the distributors, wholesale shops, government agencies, hospitals and big pharmacy chains. This type of business model adds more complexity for issuing the electronic invoicing to the tax authorities and to the buyer. One of the key objectives of electronic invoicing is to match the financial movements with the physical movements of the goods, so that there will not be any leakage in terms of VAT and income tax reporting.

### Disruptions to the Global template solutions:

Some of the Latin American countries' tax authorities have implemented very strict regulations whereby companies cannot move their goods without the prior approval of electronic invoice, but in other countries the approval can be obtained either within 24 or 48 hours after the invoice has been issued.

From the buyer's perspective, in some countries there is an obligation to confirm the receipt of the goods and acceptance of the seller's invoice in their accounting books. These additional process steps disrupt the global procure to pay or order to cash processes defined in the large companies' global template solutions.

In most cases, companies had to implement additional functionality or custom logic to integrate the LATAM Localisation components with the global template solution. As a result, whenever there is a legislation change in the electronic invoicing, companies have to assess the impact on their global template solution, requiring additional regression testing efforts.

### Impacts on master data:

The three main master data objects which are core to any business, require additional information in each Latin American country to issue or receive electronic invoices.

To provide the required details in an e-invoice, information about suppliers and customers needs to be up to date in ERP systems. For example, as part of Brazil Localisation, SAP has introduced around 15 additional fields to support the e-invoicing solution for Nota Fiscal. Similarly, for Argentina additional fields have been introduced to support the tax decisions. The management of the additional fields requires changes to the Global template solutions and master data standards.

Depending on the type of industry and type of materials, different information needs to be provided in the electronic invoices. In the case of controlled drugs or medicinal products, companies are required to provide the regulatory information along with the batch information. Similarly, for petroleum products, there is a requirement to provide the oil & gas regulatory information in the electronic invoice.

# Compliance process

All Latin American tax authorities are building up massive databases via electronic invoicing from different businesses and have initiated other key projects across different administrative departments to ensure the tax payer is correctly reporting their accounting records from an indirect and direct taxes point view.

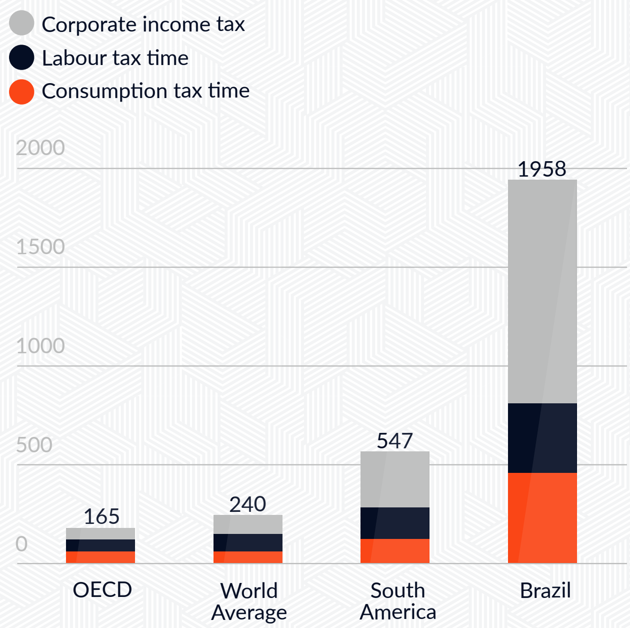
> "Today, it takes more brains and effort to make out the income-tax form than it does to make the income."

**ALFRED E. NEUMAN**

In order to validate the vast amounts of data, most of the revenue departments of the countries mandate the organisation to fulfil the compliance process electronically, either by providing the data extract or preparing the data in specified file formats like XML.

For example, companies in Brazil must comply with SPED, Sistema Público de Escrituração Digital, which translates into Public System of Digital Bookkeeping. This system was created in 2008 to replace the paper copies of the invoices and tax records of every tax payer. This system keeps the record of every electronic Nota Fiscal and accounting system, making it easier for the tax authorities to uncover tax evasion or criminal activities by companies or individuals. As a result of implementing the SPED system for invoicing and reporting, Brazil has seen a remarkable increase in tax revenues by $58 billion dollars and managed to close the VAT/Tax gap.

The tax compliance process is one of the most complex processes and the number of legislative changes are considerably high in almost every Latin American country. A study indicates that 46 new legislations are issued every business day on an average. This ensures the tax departments of every organisation put in every effort to satisfy the compliance reporting requirements. The below picture demonstrates the number of hours spent on direct, indirect and employment tax obligations.




The types of tax filings are different from one country to other within LATAM and the number of submissions and tax payments are different. This is mainly driven by the tax system within each country and it varies based on the number of tax authorities and the granularity of the business information required for each tax authority.

For example, in Argentina, on a monthly basis all tax payers are expected to submit Daily VAT, Electronic duplicate, CITI ventas and Compras to federal, provincial and city authorities.

The other complexity in the case of Argentina's compliance process is to make sure the Withholding tax certificates have been issued and received correctly. In the case of Retenciones, the seller computes the Withholding tax on their own returns with reference to the Withholding tax certificates received from the buyer. In certain cases, the seller could get an exemption from the Withholding tax deductions upon formal request to the relevant tax authorities.

Similarly, in Percepciones the buyer could get an exemption from Reverse Withholding tax from the seller upon formal request to the relevant tax authorities.

The most complex tax system in LATAM is in Brazil, who also has the most number of tax filings and tax payments via the SPED program. As an example, for an organisation who has one manufacturing facility and two distribution centres to sell the goods across Brazil, potentially the company needs to file at least 110 tax filings and about 130 tax payments.

In Brazil, the SPED program is defined to include the measures to foster technological development and the implementation of the electronic accounting and SPED tax bookkeeping system. SPED represents an integrated initiative by the federal, state and municipal tax authorities to promote a transparent relationship between tax authorities and taxpayers. Adapting to this new model of reporting, however, requires significant commitment from legal entities, including investment in process standardisation, training and technology. SPED affects how tax and accounting records are issued and kept, as well as how legal entities relate to the tax authorities.

**Figure 3:** Tax Compliance effort in LATAM in comparison with the rest of the world.

The below picture describes how the Brazil compliance process relies on upstream processes across the organisation:

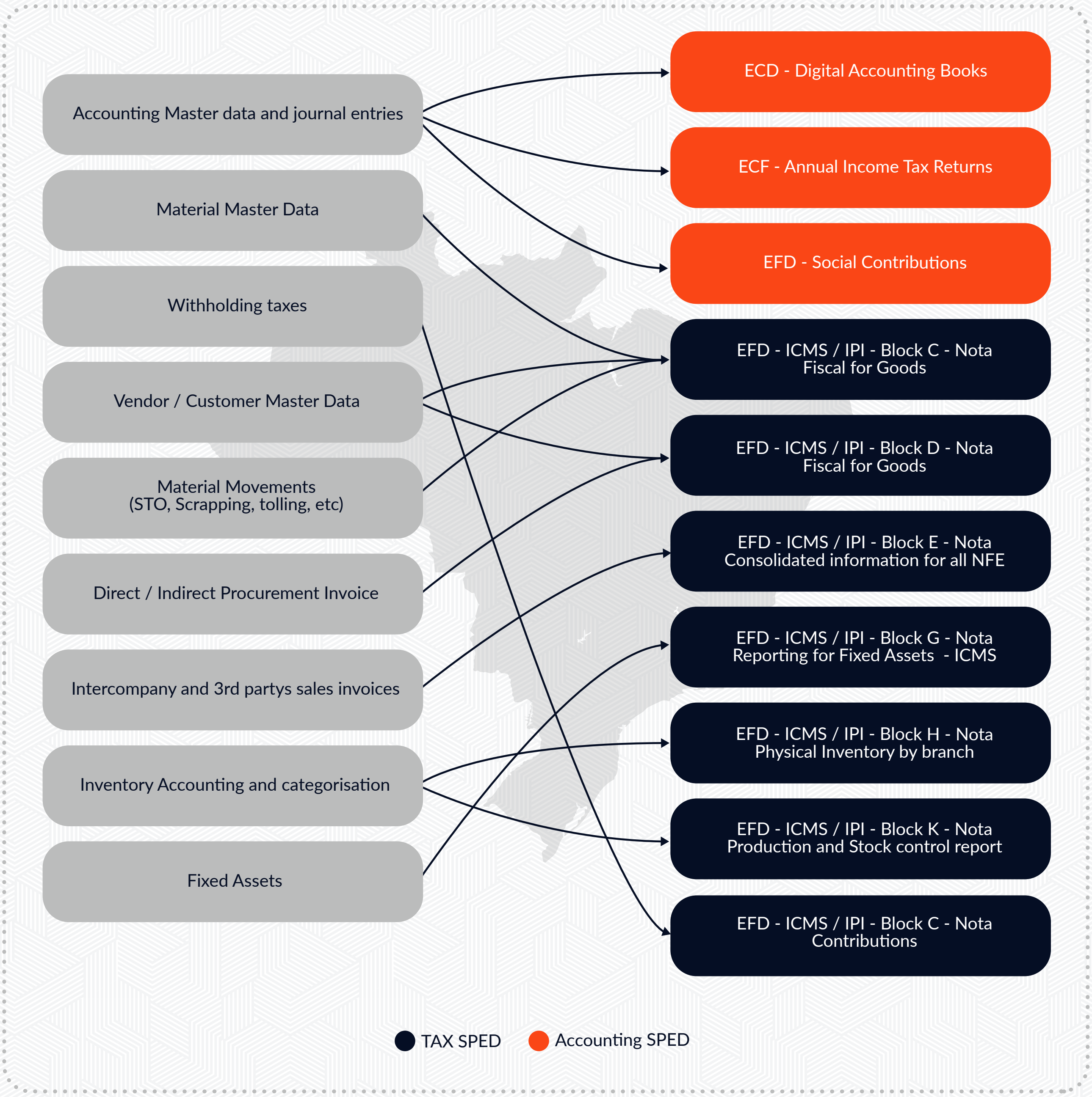



**Figure 4:** Dependency on upstream process to full fill the Brazil compliance process.

In Mexico, E-Accounts are required from every company that is registered as a tax payer and have to be be filed on a monthly basis to the tax authorities. Companies are legally obliged to keep electronic accounting records and convert this information into an XML format for periodic submission (e.g., on a monthly basis) via the tax authority (SAT) web portal.

All companies are required to submit three different files:

- Chart of accounts (standardised to accounts defined by SAT)
- Trial balance based on chart of accounts
- Journal entries based on the same chart of accounts for SAT reporting purposes. Some journal entries will require e-invoicing data (UUID, date, RFC emitter/receiver, amount before tax, taxes, total amount, payment method, etc.)
- Companies must have an internal chart of accounts for and a mapping (translation) to the standard version provided by the Tax Authority. Only the first two files must be submitted every month but all three must be generated at the same time. All three must be in XML format.

According to the Mexican Miscellaneous Rules, rule 2.8.1.6 fraction II, electronic accounting must be filed no later than the third working day of the second month after the month that the information corresponds to, for every month of the fiscal year (e.g. January transactions are reported and submitted by 3rd March).

For the annual reports, the trial balance at the end of the fiscal year should be uploaded no later than the April of the following year. Companies must also submit the information related to payments, withholdings and crediting and charging of VAT with suppliers. This needs to be done on a monthly basis.

Similar to Brazil, the Mexican compliance process requires the information from the upstream processes like procure to pay, order to cash, warehousing and distribution and financial information from the record to report process. The solution is very intrusive to any ERP system. Even with SAP systems there are certain areas where the compliance requirements are not fully met. One particular area worth mentioning is the preparation of electronic accounts in an XML format that is acceptable to SAT (tax authority in Mexico).

Some companies in Mexico look for a third-party compliance tools in order to meet the requirements. But these tools have both positives and negatives; they may resolve the XML file presentation problem, but add complexity to ERP systems in order to provide the necessary details for third party tools. Licencing and integration costs would be an additional burden to the ERP teams.

In terms of VAT returns in Mexico, the DIOT's must be filed using the Tax Authorities software (downloaded from the Tax Authorities webpage), even if SAP is able to provide and create a report, the manual input of the data into the software is necessary. SAP reports have to be configured/built in order to have the necessary data to fill out the web form.

# Conclusions

Indirect taxation and the corresponding compliance requirements are quite different from one country to another within LATAM.

The degree of complexity also varies depending on how advanced their tax digitalisation journey is. The ongoing tax digital transformation initiatives from tax authorities will drive new legislations or changes to the existing legislations.

This is creating a very dynamic tax environment that every multinational company is trying to accommodate within their current ERP systems. In most of the cases, the lead time to react to these new tax rulings or legislation changes is very limited and the tax departments end up defining a manual workaround to meet the legal requirements until their IT teams come up with an appropriate solution.

The dynamic environment makes it even more difficult for any new multinational company that wants to roll out their global ERP systems/template to Latin American countries. These new deployment initiatives require additional due diligence from tax technology experts with prior experience of LATAM taxes and a feel for the new technologies these companies will require as part of their ERP deployments. This includes additional hardware and software requirements, involvement of third-party service providers for certain countries and integration of the Global master data standards with the localisation master data requirements from Latin American countries. In addition, due diligence must include the impact assessment on the global process by including the localisation steps for generating the electronic invoice or processing the additional steps that may be required from a tax point of view.

The compliance reporting requirements vary from quite complicated detailed line by line submissions for Brazilian SPED or Mexican e-accounting systems, to simplified tax submissions for other Latin American countries; the number of compliance submissions will vary from country to country. The majority of ERP systems like SAP and NetSuite's have developed localised country version solutions to meet most of the compliance requirements. But in the case of complex regimes like Brazil, tax department need to look at third-party tools to integrate the data from their ERP systems to deliver the compliance submissions.

## How can Helixr help your business?

For the latest information about our product and services, and how we can assist with the navigating LATAM, visit our website:

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Helixr's Global Tax Technologies team has extensive experience in Latin American tax systems and have delivered tax solutions for a wide range of project types.. The team has experience of deploying a Global template solution to the LATAM region and performing technology due diligence on the back of business restructuring activities like Mergers and Acquisition, Joint Ventures and Divestitures. Our team can competently navigate through the tax complexities of LATAM and provide local expertise to implement relevant tax solutions as part of ERP deployments.

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Helixr is a business restructuring and ERP services consultancy, based in the UK, with a global reach, expertise and experience that focuses on the Life Sciences sector.
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