

Updates to the annual income tax return for corporations for fiscal year 2022

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On December 20, the Tax Administration Service (SAT) published on its website the new version of the electronic format for filing annual tax returns for fiscal year 2022.

Annual income tax return of legal entities General regime

Based on various tests performed on the 2022 Annual Return electronic format for corporations, we identified the following updates:

1. Obligations to report

- I. In the case of entities that are obligated or choose to have their financial statements audited in terms of Article 32-A of the Federal Tax Code (CFF, Spanish acronym), as well as those required to file information on their tax situation (ISSIF, Spanish acronym) in accordance with Article 32-H of the CFF for fiscal year 2022, in this new version, the section on financial statements will be disabled, so they will only need to fill out the Income Tax for Legal Entities section.

2. Income tax of legal entities

I. Income

- ▶ In the Income section, new items were added to the nominal income fields, which include, among others: consolidation of bare legal title and usufruct, taxable profit from the sale or transfer of past due portfolio, gains from derivative transactions tied to an exchange rate.

II. Authorized deductions

- ▶ With respect to the analysis of authorized deductions section and their breakdown, new items were added, such as special mining tax payments, toll payments, write-offs, and expenditure on investment and technological development.
- ▶ Under the investment deductions sections, we identified the inclusion of a list with asset groups and subgroups. In this section, for fiscal year 2022, a group for pre-operating period expenses was added, including exploration expenses (mainly for mining companies), as well as research and development expenses.

3. Financial statements

- ▶ Among the most relevant changes for 2022 is the financial statements section with the addition of the statement of cash flows and the statement of changes in equity. It is important to remember that the financial statements section will only be enabled if the entity does not have its financial statements audited and does not file ISSIF.
- ▶ Another important novelty is that, for 2022, the financial statements and the book-tax reconciliation must be filled out on a comparative basis, i.e., considering the figures of the current and prior years (in this case, 2021). In addition, there is a new option to add notes to each item included in the financial statements section that allows taxpayers to provide explanations for significant variations.
- ▶ The statement of financial position field includes new asset, liability and equity items. In addition, when completing this section, each amount must be itemized by year based on preset classifications for each item. Finally, there is a visual change as this section is now displayed vertically.
- ▶ The statement of comprehensive income was updated to include a breakdown of other comprehensive income (OCI). In the statement of comprehensive income for fiscal year 2022, each item should be divided under related parties or third parties, the sum of which will be the total amount per item for that year. This classification is not necessary for figures from fiscal year 2021.
- ▶ The statement of cash flows can be completed using either the direct or indirect method. If the indirect method is chosen, during testing we observed that the net profit data is prepopulated directly from the statement of comprehensive income. In addition, the information on investing, financing and operating activities must be entered for each line item. The ending balance of cash and cash equivalents in this section will be compared against the ending balance of cash and cash equivalents in the statement of financial position. If there is a difference, an error message will be displayed.
- ▶ The statement of changes in equity should be completed using balances starting at December 1, 2021. Once the initial balance is filled in, the movements in equity for 2021 and 2022 should be entered by item. As was done for the other financial statements, we observed that the electronic format performs cross-checks to verify that the ending balance of equity matches the respective balance in the statement of financial position.

- There are significant changes in the presentation of the book-tax reconciliation. The new version obtains the tax result for the year rather than the taxable profit as was done previously. The tax result in this section is compared against the tax result determined in the Income Tax for legal entities section, generating an error message when any differences are identified. Furthermore, each item of the book-tax reconciliation must be broken down based on pre-established classifications. The analysis of book deductions (not tax) includes accounting items such as provisions, results from fair value measurements, among others. The "others" caption in the book-tax reconciliation has been eliminated.

Given the changes described above and the findings identified, we recommend that taxpayers test the application and begin to gather all the information required to comply in a timely manner with the filing of this tax return.

It is important to note that there may be additional updates to the application following the date of this Tax Flash.

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