

Tax Alert

Tax information



VAT withholdings and their effects on Consumer Businesses

Decree 20-2006 establishes the legal framework for VAT withholdings. Companies that engage in business with VAT withholding agents (such as credit and debit card operators, exporters, special taxpayers and public sector) are subject to a withholding on their output VAT on each invoice issued. The VAT withholding rate ranges from 15% to a 65%.

As a result, of the digitalization and the use of banking system of the consumer product sale business, an increasing number of consumer product sellers with a significant portion of their clients paying with credit and debit cards have seen their cash flows significantly and continuously impacted by the VAT withholdings.

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Guatemala tax law establishes a 15% VAT withholding applied by credit and debit card issuers on the consumer product seller's 12% output VAT when paying the consumer product sellers for the purchase transactions made by their cardholders. This explains why a 15% withholding results excessive for consumer product sale business when operating with reduced margin of Outputs over Inputs.



For instance, the nominal withholding rate (15%) is 1.5 times the amount of net VAT payable of a consumer product seller operating with a 10% margin of outputs over inputs, causing the consumer product seller working capital to be frozen for the excess VAT withholdings over the actual VAT liability.



According to Decree 20-2006, a consumer product seller needs to remain in VAT withholding excess position for **2 years** in order to be able to file a refund application.

The Superintendency of Tax Administration has taken from **1 to 4 years** to process the refund applications and issue a final favorable resolution which is sent to Ministry of Finance that is responsible for materializing the refund through a bank account that can only be disposed for tax payments.

The Ministry of Finance has argued not to have funds and remained without materializing the refund for up to **5 additional years**.

This extremely slow refund process on the top of the high withholding rate and non-stop effect of the VAT withholdings seriously damage the cash performance of consumer product sellers.

Possible solutions to this problem require amendments to the Decree 20-2006 and a turn in SAT and Ministry of Finance expediting the refund process.

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