



Tax Alert

Preparation of the 2021 fiscal year-end closing

Now that we are approaching the time when companies must determine their Corporate Income Tax, it is important that companies review their tax internal controls to verify that they have available all the formal and documentary items that support the tax treatment applied, and thus avoid future questioning or adjustments by the Tax Administration.

Following are some points to consider in the fiscal year-end closing:

Income



- Companies should reconcile the income reported under the Income Tax regime and the income reported under the Value Added Tax regime, verifying that in the event of any differences between them, such differences are due to situations such as different taxable events, timing of invoicing, or exemptions granted by a specific law. It is important to mention that this reconciliation is usually required by the Tax Administration during its audits.
- With respect to the different types of income that a taxpayer may generate, it is necessary to verify that such income has paid tax under the corresponding income category, and has the respective supporting documentation, which includes among others, contracts, invoices, reports or deliverables.
- Companies should validate and verify that the credit notes issued meet the requirements established by the Law, so that the reductions and discounts granted can be considered.

Costs and expenses



For the deduction of expenses, companies should observe the following guidelines:

- Have evidence of the causality, which requires that the expenses or disbursements be related to the generation of the income;
- Consider the maximum deductible amounts, according to the type of expense;
- Have the respective local invoices, import clearance documents, foreign invoices, foreign documents and forms, as well as any other required documents such as a contract and/or reports, depending on the type of expense;
- Check that the respective withholding was made, if applicable; and
- Have the documentation that demonstrates that the payments were made through the banking system, or in the case of offsetting of accounts, that there is a notarized document to support it.

Another relevant aspect that must be checked is the detail of the company's tax credits, in order to determine their proper application and establish whether there is any risk that such tax credits have expired. To that end, it is recommended that companies analyze every year whether the accreditation method adopted is the most appropriate one for the company.

If the taxpayer has made excess income tax payments, and given the fact that it could take 3 to 5 years to recover such excess payments, it is important to establish the reasons why such excess payments were made, analyzing the forms of determination of the quarterly Income Tax and the method for crediting the Solidarity Tax.

Finally, for companies that have had operating losses for 2 consecutive periods, they may request from the Tax Administration an exemption from the following 4 quarterly installments of the Solidarity Tax. For such purpose, it is important to consider that the filing deadline for this request is 31 March 2022, and that the Audited Financial Statements for the 2 periods reporting a loss must be attached.

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