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ANNUAL ISR ESTIMATION IN MEXICO: BASIC ASPECTS.

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ABSTRACT This investigation makes an analysis of the annual declaration of the Income Tax in Mexico which must be presented by legal entities, with the purpose of describing the basic points that lead to its realization and presentation before the competent authorities, as well as its current relationship with the new tax reforms. As methodology, documentary research is used and its analysis is qualitative, being developed through the study of the various Mexican tax laws. The main results correspond to the importance of the annual declaration of the Income Tax (IT) for taxpayers, in the compliance of their tax obligations in a correct and effective way, that allows the taxpayer to have peace with the tax authorities for having fulfilled their obligations, avoiding with this the payment of fines, surcharges and fiscal updates.

KEYWORDS : .Taxes, Taxpayers, Tax Compliance.

INTRODUCTION

The liability to contribute to the Federal, State and Municipal public spending is based on the Political Constitution of the United Mexican States (CPEUM, 2017), being a duty for all Mexicans to pay contributions through the tax schemes, getting the financial resources available for their needs.

Studies carried out by the Organization for Economic Co-operation and Development (OECD) through the Tax Statistics in Latin America (1990-2015), Mexico is in the last places in tax collection in Latin America, as a result of its deficient tax policy: problems of tax evasion and tax avoidance, which contribute to a lower revenue collection.

Given these facts, fiscal policy has focused on tax collection through the implementation of reforms that allow it to get the financial income to finance its public functions (Fiscal Outlook for Latin America and the Caribbean, 2017).

Working papers are tools that allow the correct and detailed income tax estimation, and which become substantial evidence for the taxpayer in the event of a tax audit. In addition, it allows compliance with the provisions of the tax laws, not incurring what Ríos (2005) defines as a tax offense, that is, doing what is not in the law.

Theoretical basis

Background

At the beginning of the Modern Age the State raised economic resources to support its expenses,from the income of its assets and contributions, Subsidies corresponding to the exercise of their powers, there was no tax system (Valtierra and Yáñez, 1999). However, there was already a need for governments to impose taxes that would allow them to develop.

Tax law dates back to its appearance as a first branch of law, considered as a financial or fiscal right, since it had as function the organization of all the wealth that corresponds to the State (Arteaga, 1997). In the French revolution the tribute to the State was of great importance, the Declaration of the Rights of Men and of the Citizen arises, which states that "all citizens have the right to verify for themselves or their representatives the need for public contribution, free of consent (Gutiérrez, 2001).

Overview of the LISR (Income Tax Law)

Income Tax Law (LISR) in its art. 1 bases the cases in which it will be obliged to the payment of this tax by the natural and legal entities:

- Mexican residents, with respect to all their income.
- Residents abroad who have a permanent establishment in the country,
- Residents abroad, regarding income from sources of wealth located in national territory, when they do not have a permanent establishment in the country.

The taxable base or fiscal result according to article 9 of the LISR will be determined as follows:

- The taxable profit will be deducted from the total accumulated income obtained in the year, deductions authorized by this Title and the participation of employees in the profits of the companies paid in the year.
- The taxable profit for the year will be reduced, where appropriate, the tax losses pending to be applied from previous years

Once this fiscal result is determined, it must be presented by annual declaration, within a period of three months at the close of the fiscal year, that is, in the month of March of the following year.

With respect to the percentage of OCTs, 10% of the corresponding profit for the year, which is established in article 117 of the Federal Labor Law, and according to the national commission for the participation of workers in the profits of the companies, must be paid.

In order to determine the taxable income (Article 16, LISR), legal entities resident in the country, including the joint venture, shall accumulate all income in cash, in property, in service, in credit or any other type, obtained in the fiscal year, including those coming from their establishments abroad. The annual adjustment for cumulative inflation is the income that the taxpayers obtain by the real reduction of their debts.

The deductions authorized for the general legal regime (article 25, LISR), for the determination of the fiscal result, are the following: refunds, bonuses, cost of sale, investments, bad debts, loss due to force majeure, employer's contributions, accrued interest, the annual adjustment for inflation, contributions to pension funds and seniority premiums.

With respect to investments (Article 31, LISR), they may only be deducted by applying, in each year, the maximum amounts authorized by this Law, on the original amount of the investment, with the limitations on deductions which, if applicable, establishes this Law.

Investments (article 32, LISR) are considered as fixed assets, deferred charges and charges and expenses made in pre-operational periods, in accordance with the following items: fixed assets and deferred expenses.

Article 39 of the LISR establishes the costing methods: "The cost of the goods to be disposed of, as well as those of the final inventory of the year, shall be determined according to the absorbing cost system based on historical or predetermined costs".

When they obtain a tax loss (Article 57, LISR), they must determine the difference between the cumulative income for the year and the deductions authorized by this Law, when the amount deducted exceeds the income.

Legal entities (article 76, LISR) that are subject to the general legal regime, must also comply with the following fiscal obligations: keeping accounting according to CFF and RCFF, issuing invoices, making financial statements, submitting the annual statement in electronic media, keep evidentiary documents and carry inventories.

Results

Performing the annual ISR calculation represents a challenge at the end of the fiscal year, aspects that determine the "development of the Income Tax calculation" must be met. Although everything is based on cumulative income and subtracting the deductions authorized to determine the taxable base on which the 30% rate is to be applied, this becomes more complex as the current tax laws apply.

In this regard, it is important to note that as of 2002 Mexico started a process of gradual reduction of the ISR rates applicable to both companies and individuals in order to have a competitive tax rate at the global level, reaching to locate from 2007 to 2009 in 28%. However, starting in 2010 and with the objective of increasing tax collection, it increased again, arguing that this increase would be temporary to return to levels of 28% from 2014. In the year 2013, it was considered that it would be from 2015 to reach levels of 28%, having a temporary application of 29% in 2014. (ISR, 2017)

The updated electronic accounting becomes their first obligation and the first tool to gather the information needed to prepare the work papers that will allow the taxpayer to get their cumulative income, its annual adjustment for inflation which can be accumulated or deductible, calculate its cost of sales, obtain its accounting and fiscal depreciations, amortization of deferred expenses, estimate their deductible and non-deductible wage benefits, determining their taxable base, their employees' OCT to pay, updating their CUFIN and CUCA, until arriving at the final result, pay their corresponding taxes.

Table 1 shows the final process consisting of the concentration of the most common concepts involved in the determination and final calculation of the annual Income Tax (ISR), initially shows the income, followed by the costs of sales, followed by general, financial expenses , Non-deductible accountants, non-deductible deductibles, until obtaining the total of expenses, subsequently determining the fiscal accounting results, applying tax losses if applicable and finally applying the tax rates to GET the final result.

TABLE N. 1 DETERMINATION OF ANNUAL ISR 2016

CONCEPT	**accounting**	**FISCAL**	**OCT**
Own income	5,000,000	5,000,000	5,000,000
Other income	500,000	500,000	500,000
Advances from prior year clients			
SUM OF INCOME	**5,500,000**	**5,500,000**	**5,500,000**
Cost sell	3,850,000	3,850,000	3,850,000
General expenses	842,500	842,500	842,500
Financial expenses	0	0	0
Accounting depreciation		-122,500	-122,500
Non-deductible accounting depreciation			
Tax depreciation		130,622	130,622
Non-deductible expenses			
ISR	224,252		
OCT	79,358		
Annual adjustment for deductible inflation		5,796	5,796
SUM OF EXPENSES	**4,996,111**	**4,706,418**	**4,706,418**
Utility or lost	**503,889**	**793,582**	**793,582**
(-) Previous tax losses		46,075	
Tax result		747,508	793,582
ISR rate		30%	10%
Anual ISR 2016		**224,252**	**79,358**
(-) Employment subsidy			
(-) Provisional payments ISR 2016		204,000	
(-) Retained ISR			
ISR charged 2016		**20,252**	
OCT payable 2016			**79,358**

Source: Own elaboration.

Conclusions

Currently, it is not enough for legal taxpayers to submit and pay their annual income tax, but also to comply with other obligations, some implicit in tax laws and others in an intrinsic way. The presentation of electronic accounting emerges as a strategy for the government, which allows it to eradicate tax evasion and avoidance. There are also more and more filters that taxpayers must take care of, not meeting them can have consequences in their tax payment, as exempt income can be converted into tax, deductions that meet the requirements can be converted into non-deductible for not complying.

You should take into account the tax points of current legislation so as not to fall into errors during the determination of the annual tax, so that in a tax review you do not go to have expenses like: fines, updates, surcharges, payment of tax differences, that end up by financially punishing the taxpayer. It is necessary that since the accounting of cats, the income, are made taking into account the Law, NIF, so that from its beginning the information is correct, and help at the end of the year.

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