

Travel Expenses & Fringe Benefits - Tax Authorities and Accounting





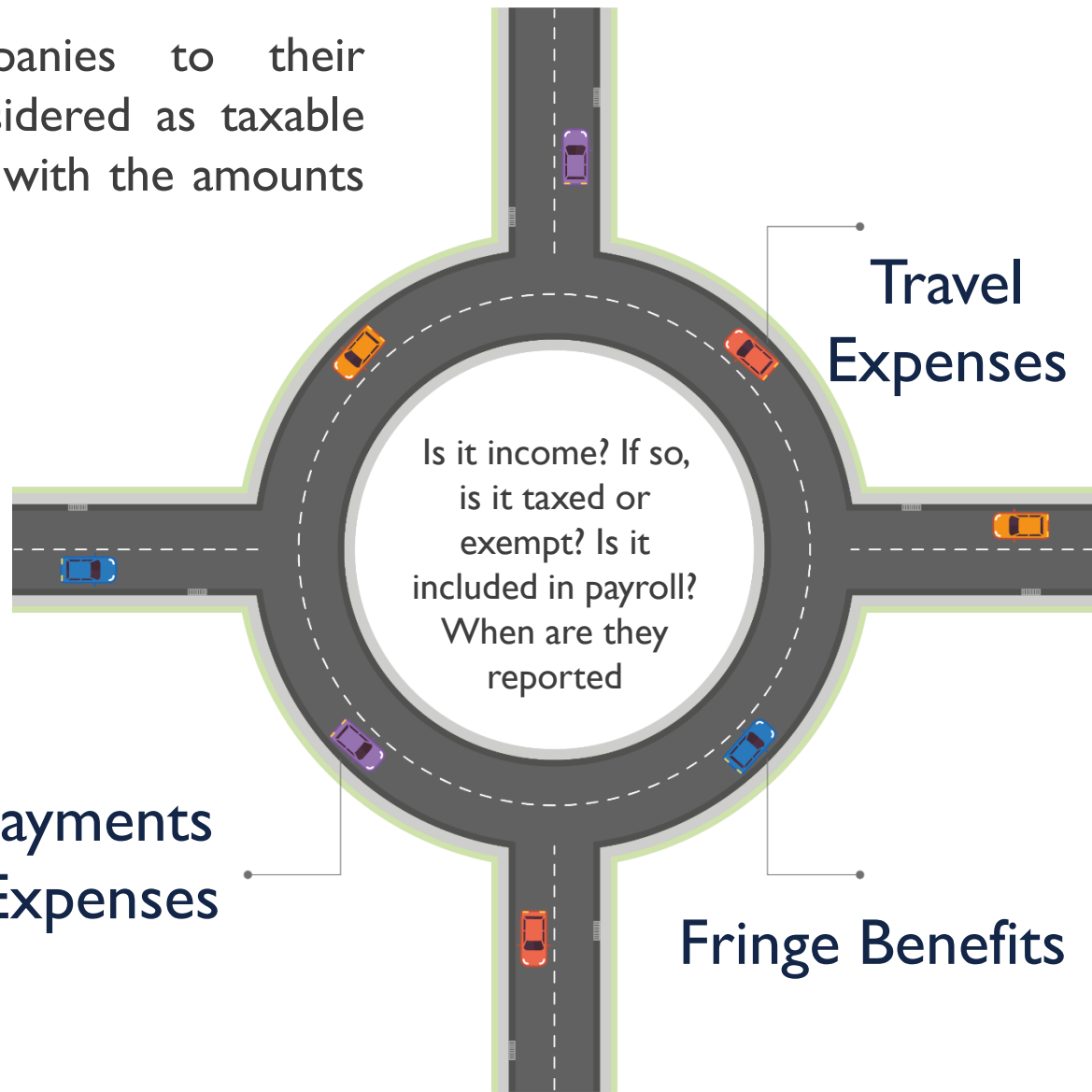
Agenda

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Background

BACKGROUND

Benefits granted by companies to their employees are generally considered as taxable or exempt, but what happens with the amounts given to employees for:



“VIÁTICOS” VS. “GASTOS DE VIAJE”

Advances

Travel Expenses



“Viáticos” – Advances:

Amounts provided, in kind or cash, to cover the needs of the trip.



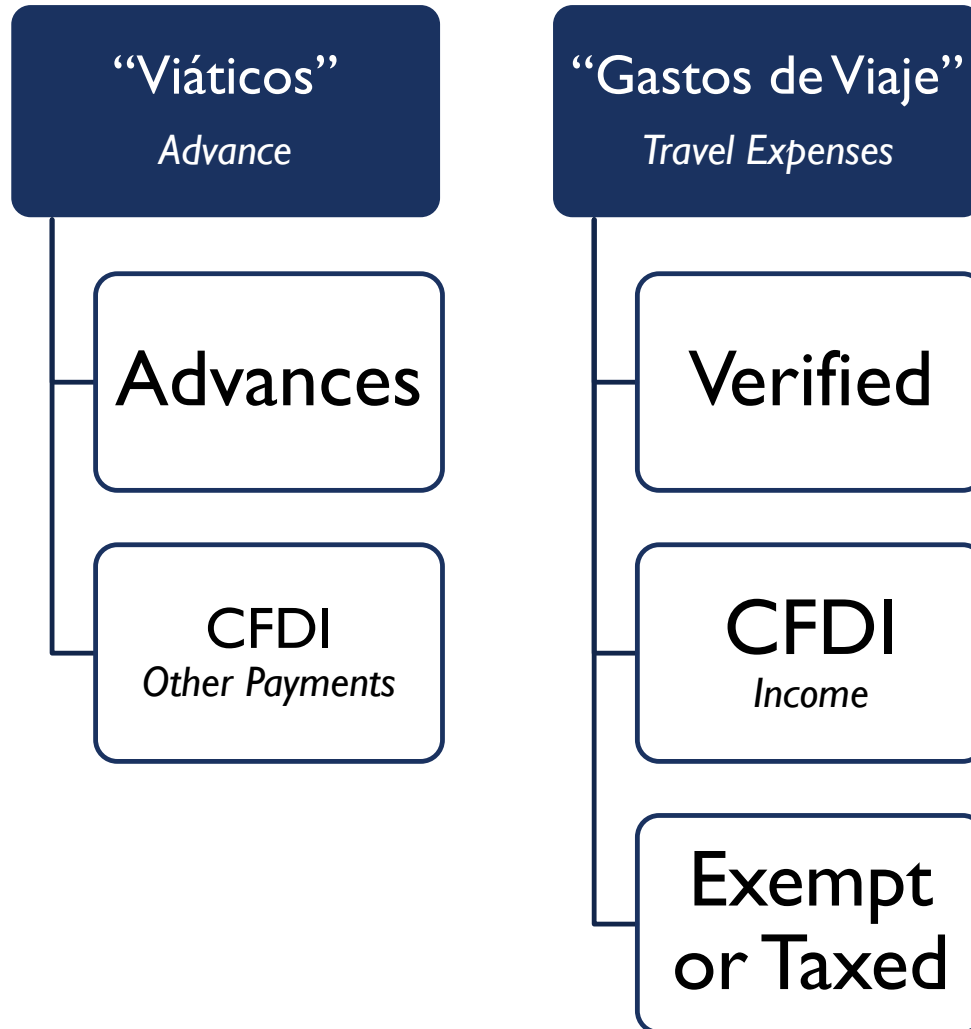
“Gastos de Viaje” – Travel Expenses:

Detail of the amounts spent during a business trip.

“VIÁTICOS” VS. “GASTOS DE VIAJE”

Advances

Travel Expenses



TRAVEL EXPENSES, DEDUCTIBLE?

- Employee or someone who provides professional services.



- Limits
- Accounting



- Accommodation
- Car Rental
- Meals
- Mileage
- Transport



- CFDI

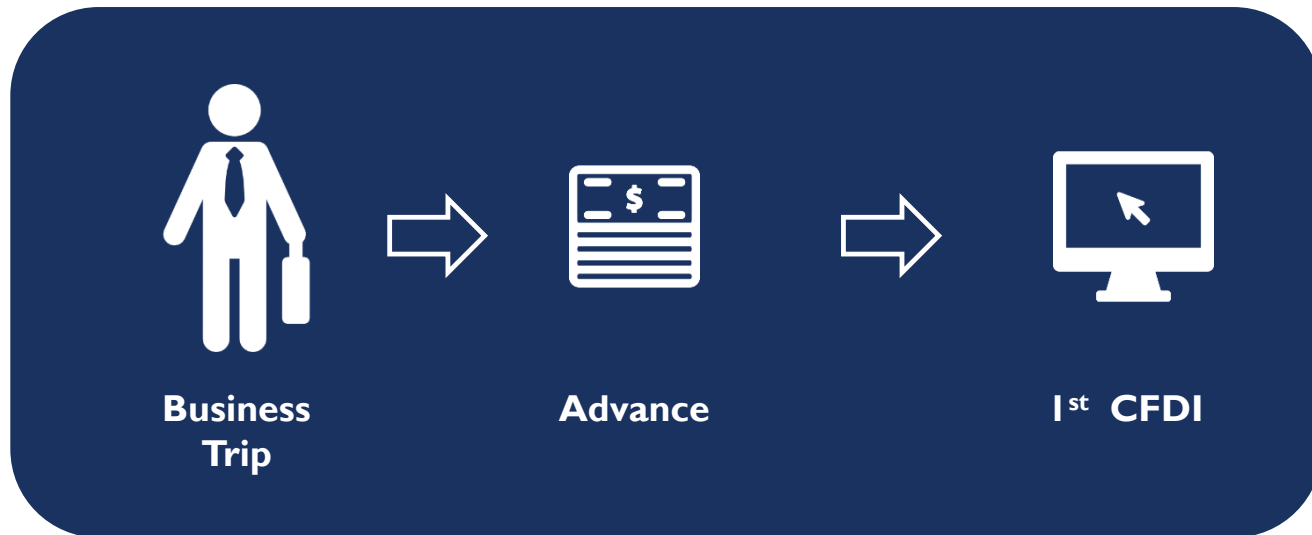


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Travel Expenses

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TRAVEL EXPENSES: FLOW OF INFORMATION IN THE PAYROLL



WHEN TO REGISTER ADVANCES?

When advances are provided to employees, they may be reported at any of the following moments:

- In the payroll CFDI corresponding to the payroll period during which the travel expense was granted to the employee.
- In the payroll CFDI corresponding to following payroll period; as long as it is issued within 30 calendar days after the advance was paid (& *within the same tax year*).
- In an separate CFDI; as long as it is issued within 30 calendar days after the advance was paid (& *within the same tax year*).

CONSIDER THE FOLLOWING:

Registering the flow: Advances provided to the employee must be registered in the “other payments” section of the CFDI (*advances provided to the employee*).

- Example: Employee X receives 5,000 pesos for a trip to Mexico City.

Income		Deductions	
Salary	12,000	Income Tax	2,520
Seventh Day	2,000	Social Security	650
Total	14,000	Total	3,170
Travel Expense	5,000		
Subtotal	19,000		
Net Paid – 15,830			

TRAVEL EXPENSES: FLOW OF INFORMATION IN THE PAYROLL



Registration /
Refund?



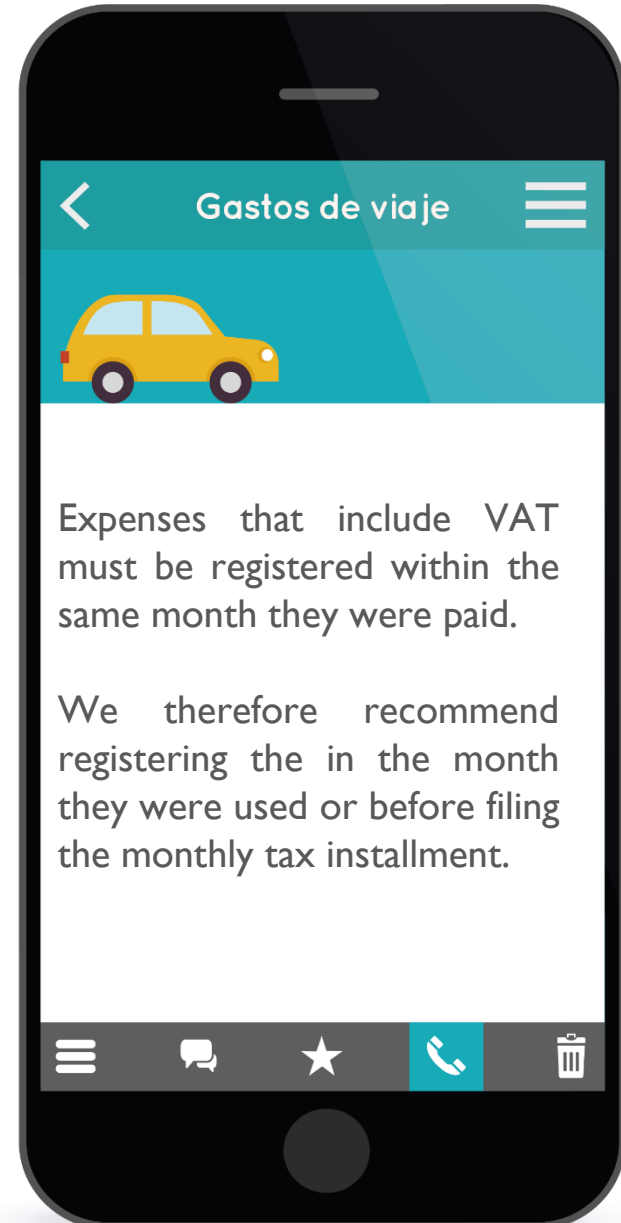
2nd CFDI

Up to 20% of the travel expenses (\$15,000 pesos per year limit) may be considered as exempt even if no supporting documentation is provided. (Art. 152 RLISR)

WHEN TO REGISTER TRAVEL EXPENSES?

There is no exact requirement for when to do so, the general rule of deductions allows us to register them no later than the last day of the corresponding tax year.

Art. 27 Section XVIII



HOW ARE THE INVOICES AND RECEIPTS REGISTERED?

Travel expenses for which supporting documentation has been provided, per the Income Tax Law and its Regulations are to be declared as exempt “income” (travel expense advances).

Additionally an “Adjustment for Advance on Travel Expenses” must be registered in the deductions for the same amount indicated in the exempt income.

Income		Deductions	
Salary	12,000	Income Tax	2,520
Seventh Day	2,000	Social Security	650
Exempt Travel Expenses	5,000	TE Adjustment	5,000
Total	19,000	Total	8,170
Net Paid - 10,830			

TRAVEL EXPENSE DEDUCTIONS

- When the employee only provides supporting documentation for only part of the expenses.

Income		Deductions	
Salary	12,000	Income Tax	2,520
Seventh Day	2,000	Social Security	650
Exempt Travel Expenses	4,000	Unused TE	1,000
		TE Adjustment	4,000
Total	18,000	Total	8,170
Net Paid – 9,830			

Note: Applicable limits permitted to be made on employees' payrolls must be taken into consideration.

WHAT IF THE EMPLOYEE DOES NOT PROVE THE TRAVEL EXPENSE AND DOES NOT RETURN THE EXCESS ADVANCE RECEIVED?

- **Taxable Income:** Expenses that are unsupported, do not meet tax requirements or are considered non-deductible, must be included in the payroll CFDI as taxable income. Additionally, an “Adjustment for Advances on Travel Expenses” must be included in the deductions for the same amount as indicated in the taxable income.

Income		Deductions	
Salary	12,000	Income Tax	3,420
Seventh Day	2,000	Social Security	650
Taxable Travel Expenses	4,500	TE Adjustment	4,500
Total	18,500	Total	8,570
Net Paid – 9,930			

COLLATERAL IMPLICATIONS OF TAXABLE TRAVEL EXPENSES

- **Social Security Law:** Unsupported expenses are considered as income and therefore are included in the calculation to determine the employee's base salary of Social Security contribution purposes. If they are duly supported they are to be considered as a work tool, and therefore are not included in the calculation.
- **Payroll Tax:** Some States establish that to be considered exempt, they must meet the deductibility terms required by the Income Tax Law (*Aguascalientes, Campeche, Chihuahua, Coahuila, Colima, Guanajuato, Jalisco, Michoacán, Morelos, Nayarit, Nuevo Leon, Oaxaca, San Luis Potosí, Sinaloa, Tamaulipas and Veracruz*).
 - Durango and Querétaro as long as supporting documentation is provided, the other States consider travel expenses exempt without any conditions.



OTHER OBLIGATIONS

Issuing Yearly Reports?

According to article 99, section VI of the Income Tax Law, employers are obligated to provide, by February 15th of each year, a report detailing the total amount of travel expenses paid during the calendar year in question, for which the exemption provided for in Article 93, section XVII, of this law was applied.

OTHER OBLIGATIONS

However, Miscellaneous Rule 2018 2.7.5.3., indicates that the employer has the possibility of issuing a **payroll CFDI that includes the travel expenses** that were provided, at the time, to the employee. **This will be considered as proof of paid travel expenses.**

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Fringe Benefits

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WHAT ARE FRINGE BENEFITS?

Income Tax Law - Article 8 :

Fringe benefits are considered to be the expenditures made with the purpose of **satisfying present or future contingencies or needs**, as well as granting **benefits in favor of employees** or members of cooperative societies, tending to their physical, social, economic growth or that allow them to improve their quality of life and that of their family.



Fringe Benefits

- Private Medical & Life Insurance.
- Courses for employees and their families.
- Food coupons.
- Savings fund.
- Benefits of similar nature.



Work Tools

- Gasoline vouchers (*when applicable*).
- Mobile phone services.
- Employee transport.
- Restaurant vouchers.



Training Expenses

- Work related courses and workshops.
- Courses related to personal and organizational growth (*soft skills*).
- Language courses, when the job requires it.

HOW AND WHEN TO INCLUDE THE FRINGE BENEFITS IN A PAYROLL CFDI?

- A. When the benefit is provided.
- B. In the regular payroll or in an independent special payroll.

The company must keep records of the amount that corresponds to each employee, for example invoices for private health insurances need include the detail per employee.



Agenda

Accounting

Best practices

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DELIVERY OF TRAVEL EXPENSES TO THE EMPLOYEE/FLOW

- I. When the employee is paid the amount corresponding to his/her travel expenses (travel expenses given to the worker), the concept will need to be included in expenditure journal as follows:

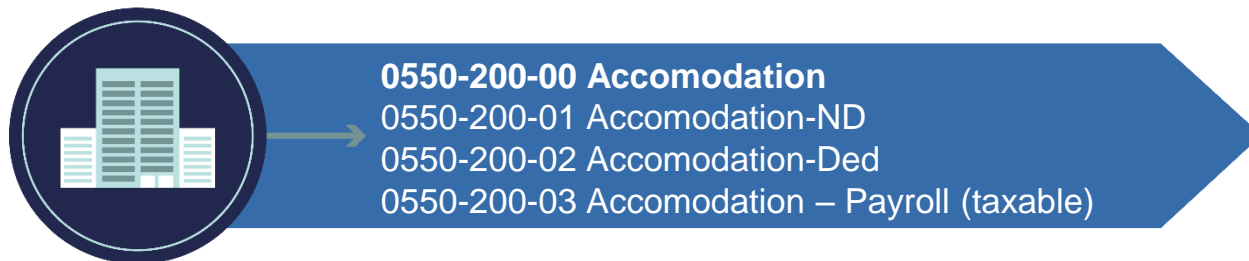
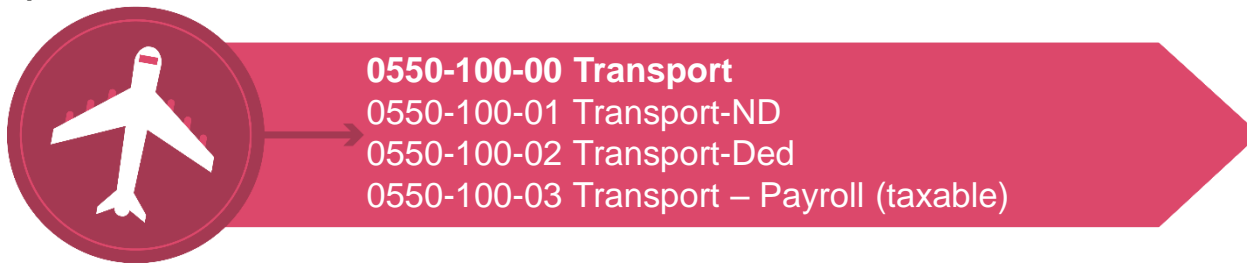
- Travel Expense Advance / Employee Name

Account	Debit	Credit
Varios Debit / Employee	10,000	
Bank		10,000
	<hr/> 10,000	10,000



TRAVEL EXPENSE VERIFICATION BY EMPLOYEE

We recommend controlling the travel expense accounts in the chart of accounts by type of expense, as well as subdivide them into deductible and non-deductible. Based on this, you will have to add an account to reclassify the expenses that were taxed to the employee through payroll, the account must be identified and classified by each type of expense, example:

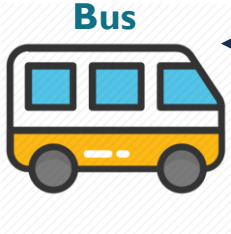


IDENTIFYING DEDUCTIBLE AND NON-DEDUCTIBLE TRAVEL EXPENSES


Type	Deductibility Requirements	Reference
Food	Domestic daily limit \$750.00 International daily limit \$1,500.00 Local restaurant consumption <i>(paid via electronic means)</i> Local restaurant consumption <i>(paid in cash)</i> Purchase without accommodation CFDI but with a transport CFDI (paid with credit card).	Lim. 750 Lim 1,500 Local 8.5% Local/efec Sin hosp. Efect.
Accomodation	No domestic limit. Daily limit abroad \$3,850 (with proof of transport)	Lim. 3,850
Transport	Temporary use of vehicle domestic or abroad with accommodation or transport CFDI. Gas paid using electronic means	Lim. 850 Gas. Efect.
Vehicule Maintenance	In accordance with the deduction legal limit for the purchase of vehicles.	Mtto. Lim.
Others	Expense without a CFDI Expenses that do not meet the tax requirements. Expenses over \$2,000 paid in cash.	Sin CFDI S/Req. Fisc. Lim. Efect.

EXAMPLE:

An employee received from his employer 10,000 for travel expenses for a trip to another State, upon his return he presented the following travel expense verification:



Concept	With Proof that Meets Tax Requirements	With Proof that Does Not Meet Tax Requirements	Unused Advance	Method of Payment
Accommodation		5,000		Debit Card
Transport	1,000			Cash
Food	700			Debit Card
			3,300	
TOTAL	1,700	5,000	3,300	

 Incorrect Tax ID on the invoice

The amount that was not used was returned to the employer.

ACCOUNTING

<u>Account</u>	<u>Debit</u>	<u>Credit</u>	<u>Concept</u>
0550-100-00 Transport			
0550-100-01 Transport-ND			
0550-100-02 Transport-Ded	1,000		Verified travel expense
0550-100-03 Transport - Payroll (Taxable)			
0550-200-00 Accommodation			
0550-200-01 Accommodation-ND	5000		Verified travel expense
0550-200-02 Accommodation-Ded			
0550-200-03 Accommodation - Payroll (Taxable)			
0550-300-00 Food			
0550-300-01 Food-ND			
0550-300-02 Food-Ded	700		Verified travel expense
0550-300-03 Food - Payroll (Taxable)			
1140-100-00 Varios Debits			
1140-100-01 Employee 1		6,700	Verified travel expense
1120-000-000 Banks	3,300		Unused advance refund
1140-100-00 Varios Debits			
1140-100-01 Employee 1		3,300	Unused advance refund
	10,000	10,000	

The employer decides to consider as taxable the expense that does not meet the tax requirements and covers the tax by giving the worker a bonus.

Income		Deductions	
050 Non-Taxable Travel Expense	1,700	002 Income Tax	728
050 Taxable Travel Expense	5,000	081 Adjustment TE Paid to Employee	1,700
038 Bonus for TE Adjustment	728	081 Adjustment TE Paid to Employee	5,000
Total	7,428	Total	7,428
Net Paid -			

In this case, the Accommodation-ND must be reclassified to Accommodation-Payroll

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
0550-200-00 Accommodation		
0550-200-01 Accommodation-ND	-5000	
0550-200-02 Accommodation-Ded		
0550-200-03 Accommodation - Nómina	5000	
0520-300-01 Bonus Advance Adjustment	728	
2107-100-01 Income Tax Withheld on Salary		728
	728	728



CONTACT US

If you are unable to carry out a detailed review to ensure compliance, at **Payroll Plus MX** we can help you verify registry of your **Travel Expenses and Fringe Benefits** in a standardized manner.

Ask for our **Premium Consulting**.

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