

## Electronic Invoicing in Mexico Now Mandatory

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Companies operating in Mexico need to be aware that invoices (factura), and how they are presented, can have an effect on their business in Mexico, particularly with Mexican tax authorities. Until now, Mexican companies only had to concern themselves with paper invoices, which are subject to special rules on where and by whom they can be printed. On January 1, 2011, Mexico began requiring companies to integrate with the Mexico Tax Authority (SAT) for real-time issuance and approval of electronic invoices.

The new electronic invoice in Mexico is a digital tax receipt called a "Comprobante Fiscal Digital" (CFDI) or "factura electrónica" that documents and confirms the performance of a business transaction in accordance with the standards defined by the SAT in Annex 20 of the Miscellaneous Tax Resolution, and which can be generated, transmitted and protected by electronic means.

Effective immediately, all invoices in Mexico must be electronic. Paper invoices printed before January 1, 2011, by an authorized printer may continue to be used until the expiration date established on the invoice (normally two years). Where required, new paper invoices need to be bar-coded (Código de Barras Bidimensional or CBB). This transition process does not apply to companies with an annual income of more than \$4 million Pesos (approx. U.S. \$325,000); with few exceptions, these must immediately begin using only electronic invoices.

There are a number of specific requirements on the issuance of electronic invoices, which vary by size of company. Below are the most important distinctions:

\* Accumulated income on the prior tax declaration or based on estimates on current tax year.

There are multiple purposes and benefits of the new electronic invoicing. One is to achieve savings in the cost of issuing factura by eliminating the requirement to have them printed on special stationery only by certain licensed printers. The electronic invoicing process also will streamline administration, including shipping and receiving. It is also anticipated that the electronic invoices will help reduce the risk of fraud since the documents will be subject to certain security measures (discussed below). Electronic invoices establish a means to immediately verify the identity and tax eligibility of the person signing the electronic invoice. The process of issuing an electronic invoice requires a few new steps, which verify the authenticity of the invoice.

In order to be able to issue electronic invoices, each Mexican company must do the following:

- Obtain a federal registration for taxpayers (Registro Federal de Contribuyentes or RFC) and register with SAT to issue electronic invoices.
- Obtain an Electronic Signature (Firma Electrónica Avanzada or FIEL) from SAT.
- Obtain a Certificate of Digital Stamp (Certificado de Sello Digital or CSD) from SAT.
- Use an Authorized Certification Provider (Proveedor Autorizado de Certificación or PAC) for the validation, folio and digital stamp.

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Companies issuing electronic invoices must keep track of the invoices issued, by storage or backup of digital vouchers, so as to have on hand any clarification required by SAT in the future.

The sanctions for taxpayers that issue or use electronic invoices that do not comply with the regulations will be the same than the sanctions for tax fraud, i.e., six months to 9 years imprisonment, depending on the amount involved.