

Financial Management and Tax Administration of Companies Construction Industry

Administración financiera y fiscal de las empresas de la industria de la construcción

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Abstract

The construction industry is considered as one of the main drivers of the country's economy, which contributes with a large percentage of the gross domestic product. Currently, it is one of the most affected sectors at both the national and state level.

This article shows the several ways of obtaining resources for real estate developments, requirements, minimum necessary conditions, as well as the key characteristics of project financing and current rates, in addition to the different forms of capital and interest payments within the construction period and commercialization of such.

Regarding federal contributions, there are more and more rules to comply within them, from the moment of taxable income, as well as the application of the corresponding deductions.

It is concluded that the tax treatment in terms of Income Tax for this type of taxpayers has its advantages in terms of cash flow, since it is possible for the taxpayer to capitalize monetary resources during the construction time, so that they can pay taxes until they have the resources to do so and not before, as normally happens among other legal entities that are not engaged within this industry.

Keywords: Financial management, Federal taxes, Construction industry

Resumen

La industria de la construcción es considerada como uno de los motores de la economía del país, la cual aporta un gran porcentaje al producto interno bruto. En la actualidad es uno de los sectores más castigados tanto a nivel nacional, como estatal.

En el presente artículo se muestran las diversas formas de obtención de recursos para el fondeo de desarrollos inmobiliarios, requisitos, condiciones mínimas necesarias, así como las características de los créditos, tasas vigentes, además de las formas de pago de capital e intereses dentro del desarrollo de la construcción y comercialización de la obra.

En lo que se refiere a las contribuciones federales cada vez son más las reglas para poder cumplir con ellas, desde los tiempos de acumulación de los ingresos, así como la aplicación de las deducciones correspondientes.

Se concluye que el tratamiento fiscal en materia de Impuesto Sobre la Renta para este tipo de contribuyentes tiene sus ventajas en lo correspondiente al flujo de efectivo, dado que se logra capitalizar durante el periodo de la obra al contribuyente, pueden pagar hasta que tengan los recursos para hacerlo y no antes, como normalmente sucede con otras personas morales que no se dedican a estas actividades.

Palabras Clave: Administración financiera, impuestos federales, industria de la construcción



Introduction

Construction companies currently face countless difficulties in presenting their financial, tax, and accounting-administrative information for financing purposes, as well as for participating in public works tenders, which makes it necessary to define clear guidelines in the presentation of information.

For tax purposes, it is necessary to provide certainty to the taxpayer regarding the timing of revenue recognition and the different methods available to recognize it: items that should be considered as costs and/or expenses; in addition to correctly recording accounting operations in their corresponding categories, due to the complex regulations in financial matters. Few people master this area, and even fewer the tax area.

The construction industry is considered one of the engines of the country's economy, contributing a significant percentage to the gross domestic product. Currently, it is one of the most affected sectors both nationally and at the state level, as the current federal government did not include allocations for housing in the expenditure budget for most states of the republic.

Regarding federal contributions, there are increasingly more rules to comply with them, from the timing of revenue recognition to the application of corresponding deductions.

The complex economic situation faced by the sector, along with the reduction of social interest loans by the federal government, led the housing construction industry into a slowdown that extended until this year, as the federation eliminated subsidies granted to individuals earning up to 2.6 daily minimum wages.

Obtaining financing from financial institutions has become more expensive due to increased interest rates, leading to low inventory turnover, over-indebtedness, and consequently, a reduced purchasing capacity for the development of new projects.

Theoretical development

Mechanisms for obtaining financial resources for the construction industry

Different methods for obtaining resources to fund real estate developments are presented, including requirements, minimum necessary conditions, as well as the characteristics of the loans, current rates, and payment methods for principal and interest within the development and marketing of the construction work.

Bank bridge loans

Bridge loan in pesos, intended for the development of social interest, middle-level, residential, and high-end residential housing complexes, granting up to 65% of the project value, through disbursements according to construction progress and terms aligned with the construction period and extendable for the individualization of housing units.

Requirements and conditions

- Have a checking account at the bank where you will apply for the loan
- Submit a loan application
- Authorize the credit bureau check, submitting the signed application for credit history review
- Submit financial, legal, and technical information about the company and the project to be financed

Characteristics

- Purpose: construction of housing complexes
- Financing up to 65% of the commercial value of the project
- National currency
- Terms aligned with the construction period, extendable in six-month periods up to twice
- TIIE rate + financial margin (the financial margin is an indicator that measures the difference between income and financial costs)
- Formalization through public deed, with mortgage guarantee and payable through individualization of housing units and after construction progress
- Disbursement through deposits in a checking account, starting with an advance for working capital

Payment methods

- Monthly interest payments
- Principal payments through individualization of housing units
- Opening commission
- Prepayments on principal can be made without commission

Sociedad Hipotecaria Federal Loans

What is a Bridge Loan?

It is a medium-term loan granted by financial intermediaries to housing developers for the construction of housing complexes, commercial equipment, and improvement of housing groups.

How to obtain a Construction Loan?

Currently, the Sociedad Hipotecaria Federal does not directly provide resources for housing construction. Instead, it guarantees timely payment to the creditors of financial intermediaries regarding the loans granted for housing construction in case of default by the developer.

Therefore, the procedure, evaluation, granting, and contracting of a bridge loan must be carried out with a financial intermediary registered with Sociedad Hipotecaria Federal (SHF).

To initiate the process of obtaining a bridge loan with a financial intermediary, you must meet some basic requirements, which consist of documents inherent to the company and the project itself, mainly:

- Legal folder: It should contain all the company's legal documents such as articles of incorporation, powers of attorney, identifications, etc., as well as the legal documents of the project: property title, condominium property regime, subdivision and construction authorizations, property tax payments, etc.
- Technical folder: It should include architectural plans, lotting plans, structural plans, location maps, licenses, permits, water supply feasibility, electricity feasibility, budgets, construction schedules, etc.
- Financial folder: Containing the historical financial information of the company applying for the loan, as well as the project's cash flows,

and their preparation assumptions based on a market study.

These requirements may vary depending on the financial intermediary processing the loan.

The financial conditions of the loans, in terms of interest rates and commissions, vary according to each intermediary.

After the bridge loan is approved by the financial intermediary, it will submit the project for registration with SHF and to obtain the timely payment guarantee.

Once the bridge loan is formalized, an advance is generally granted by the intermediary to start the project.

The other disbursements are made according to the construction progress.

The individual loans with which the bridge loan will be settled can be channeled through this financial intermediary or another chosen by the buyer.

Timely Payment Guarantee

It replaces SHF's bridge loan funding.

It consists of backing financial intermediaries to obtain lines of credit or issue debt certificates in the market, so that, in turn, they provide funding to housing developers (SHF, 2017).

Working Capital Loans

What is a Working Capital Loans?

It is financing that allows companies to have liquidity to meet their day-to-day needs.

Companies have a series of expenses that must be constantly addressed. This includes, for example, the purchase of supplies, raw materials, or merchandise, tax payments, payments to suppliers, and payroll itself. It is also possible that an opportunity for growth may arise, or an important order may come from a client. To address these situations, companies require resources immediately or in the very short term. The working capital loan is designed to meet that need.

This financing is one of the most common in the business field, as companies do not always have the necessary liquidity to meet these requirements. An unforeseen event may occur, such as a delay



in payments from some clients, or delayed disbursements of a bridge loan, or the need to address a delay in construction details, as well as for payroll payments or a special bonus you wish to give to staff. It may also be needed to hire more temporary staff in situations where the market demands that housing be completed in more timely periods.

The working capital loan is generally characterized by being short or medium-term. Depending on the amount and the intended use, guarantors or collateral may be required. The specific conditions of each loan vary greatly, as they are practically “tailored” products for the client. As an entrepreneur, it is necessary to know how much money you will need and, based on the cash flow, choose the best term to repay the loan.

This tool can be very useful to help boost a business. However, it should be noted that the capital you are borrowing must generate profitability in a relatively short term; it is not a suitable instrument for the purchase of machinery, vehicles, furniture, or land that you do not plan to develop in the short term. In such cases, it is more convenient to take a fixed asset or long-term loan. (Grupo RPP)

Tax aspects of the construction industry

Accruable income

Forms of Income Recognition (Article 16 of the Ley del Impuesto sobre la Renta, LISR)

Legal entities residing in the country, including joint ventures (asociación en participación), must recognize as taxable income the totality of their revenues in:

- Cash
- Goods
- Services
- Credit
- Or any other type
- Obtained during the fiscal year, including those derived from their establishment abroad

In general terms, as established by this article, legal entities residing in the country must recognize as taxable income the totality of revenues obtained during the fiscal year, regardless of how these

are received, including those derived from their establishments abroad. In other words, commercial companies, decentralized organizations predominantly engaged in business activities, credit institutions, civil societies and associations, and joint ventures must recognize revenues obtained on a worldwide basis.

Article 17, in its first paragraph, refers to what constitutes income in relation to the provisions of Article 16 of the Ley del Impuesto Sobre la Renta (LISR).

For the purposes of Article 16 of this law, it is considered that income is obtained, in those cases not provided for in other articles of the same, on the dates indicated as follows, in the case of:

- 1) Sale of goods or provision of services, when any of the following situations occurs, whichever happens first;
 - a) The tax receipt covering the price or agreed consideration is issued.
 - b) The good is shipped or physically delivered, or the service is rendered.
 - c) The total or partial price or agreed consideration is collected or becomes due, even if it comes from advance payments.

In the case of sales on credit terms under the provisions of the Código Fiscal de la Federación, taxpayers shall consider as income obtained in the fiscal year the total agreed price. Sales on credit terms with deferred or installment payments are understood as those made to customers who are the general public, where more than 35% of the price is deferred beyond the sixth month, and the agreed term exceeds 12 months. Regarding construction revenues, this modality of sales on credit terms with financing by the same developer also exists (Article 14 LISR, Section IX, second paragraph).

Construction contracts (Article 17 LISR, paragraph IV)

Taxpayers who enter into real estate construction contracts shall recognize as taxable income the revenues derived from said contracts on the date when the progress estimates for executed work are authorized or approved for payment, provided that payment of such estimates occurs within three months following their approval or authorization; otherwise, the revenues from said

contracts shall be recognized as taxable income when they are actually paid. Taxpayers who enter into other construction contracts in which they are obliged to execute such work according to a plan, design, and budget shall recognize revenues on the date when the progress estimates for executed work are authorized or approved for payment, provided that payment of such estimates occurs within three months following their approval or authorization; otherwise, the revenues from said contracts shall be recognized as taxable income when they are actually paid, or in cases where they are not required to submit such estimates, or when the submission frequency exceeds three months, they shall recognize taxable income based on the quarterly progress in the execution or manufacture of the goods referred to in the work.

The taxable income from construction contracts referred to in this paragraph shall be reduced by the portion of advances, deposits, guarantees, or payments for any other concept previously recognized and amortized against the estimate or progress.

The aforementioned taxpayers shall recognize as taxable income, in addition to those indicated herein, any payment received in cash, goods, or services, whether as advances, deposits, guarantees of compliance with any obligation, or any other.

Likewise, the aforementioned provision establishes that taxable income from the indicated construction contracts shall be reduced by the portion of advances, deposits, guarantees, or payments for any other concept previously recognized and amortized against estimates or progress.

Furthermore, the cited article indicates that taxpayers referred to in this provision shall recognize as taxable income, in addition to those already mentioned, any payment received in cash, goods, or services, whether as an advance, deposit, compliance guarantee, construction progress, work estimates, project management fees, interest, technical assistance, machinery rental, sale of materials, or construction supervision.

Example of taxable income from construction work.

Data:

- Total Contract Amount: \$15,000,000.00
- Advance payment of \$2,000,000.00 received on

January 10, 2020

- First estimate of 15% to be collected on April 20, 2020
- Second estimate of 20% to be collected on September 6, 2020
- Third estimate of 10% to be collected on December 14, 2020

Description	January	April	September	December
Work estimate	0	2,250,000	3,000,000	1,500,000
Less:				
Advanced amortization	0	300,000	400,000	200,000
Equals:				
Taxable estimate		1,950,000	2,600,000	1,300,000
Plus:				
Collected advances	2,000,000	0	0	0
Total revenues	2,000,000	1,950,000	2,600,000	1,300,000

This applies to construction work when an advance payment is made for the development of a building or construction of any type of good, whether for public or private works (construction contract).

In the above example, the advance amortization is considered in the same proportion as the progress. That is, if the first estimate in April represented a 15% progress, an amortization of 15% is also estimated.

Deductions

Article 25 of the LISR specifies the deductions that taxpayers may make, provided they comply with the formal requirements established in the law, which are indicated below:

- I. Returns received or discounts or rebates granted during the fiscal year.
- II. Cost of goods sold.
- III. Net expenses after deducting discounts, rebates, or returns.
- IV. Investments.
- V. Bad debts and losses due to acts of God, force majeure, or from the disposal of goods other than those referred to in Section II of this article.



VI. Employer contributions paid to the Instituto Mexicano del Seguro Social, including those provided for in the unemployment insurance law.

VII. Accrued interest payable during the fiscal year without any adjustment. In the case of late payment interest, from the fourth month onwards, only interest actually paid may be deducted; for these purposes, it shall be considered that payments made for late payment interest after the third month following the default first cover the late payment interest accrued in the three months following the default, until the amount paid exceeds the amount of deducted accrued late payment interest corresponding to the aforementioned last period.

VIII. The annual inflation adjustment that results deductible under the terms of Article 44 of this law.

IX. Contributions made to create or increase reserves for employee pension and retirement funds, complementary to those established by the social security law, and seniority premium reserves constituted under the terms of this law. The deductible amount referred to in this section shall in no case exceed the amount resulting from applying a factor of 0.47 to the amount of contributions made during the corresponding fiscal year. The factor mentioned in this paragraph shall be 0.53 when the benefits granted by the taxpayer to its workers, which in turn are exempt income for said workers, in the corresponding fiscal year, are not reduced compared to those granted in the previous fiscal year.

X. When, for the expenses referred to in Section III of this Article, taxpayers have paid any advance, it shall be deductible provided that the requirements established in Article 27, Section XVII of this law are met.

General requirements for deduction (Article 27 LISR)

Authorized deductions must meet the following requirements:

I. Be strictly indispensable for the purposes of the taxpayer's activity, unless they are non-onerous or non-remunerative donations that meet the requirements set forth in this law and in the general rules established for this purpose by the tax administration service.

II. When this law permits the deduction of investments, they must proceed under the terms of Section II of this chapter

III. Be supported by a tax receipt and payments exceeding \$2,000.00 must be made via electronic funds transfer from accounts opened in the name of the taxpayer in institutions that comprise the financial system and entities authorized for this purpose by Banco de México, nominative checks from the taxpayer's account, debit cards, credit cards, service cards, or electronic purses authorized by the tax administration service.

IV. In the case of the acquisition of fuels for maritime, air, and land vehicles, payment must be made in the manner indicated in the previous paragraph, even if the consideration does not exceed \$2,000.00.

a) The authorities may exempt taxpayers from the obligation to make payments through the means established in the first paragraph of this section when such payments are made in towns or rural areas without financial services.

b) Payments made via nominative check must contain the federal taxpayer registry code (RFC) of the issuer, as well as on the front of the check, the expression "for deposit in the beneficiary's account only".

V. Be duly recorded in accounting and deducted only once.

VI. When payments whose deduction is intended are made to taxpayers subject to value-added tax, such tax must be transferred explicitly and separately in the corresponding tax receipt.

VII. In the case of interest on capital borrowed, said funds must have been invested in the business purposes. When the taxpayer grants loans to third parties, its employees or officers, or its partners or shareholders, only interest accrued from capital borrowed shall be deductible up to the amount of the lowest interest rate stipulated in the loans granted to third parties, employees, or partners or shareholders, on the portion of the loan made to these individuals, and a tax receipt must be issued and delivered to those to whom the loan was granted, which may serve as proof of receipt. If no interest is stipulated in any of these transactions, the deduction will not be allowed concerning the proportional amount of the loans made to the

mentioned persons.

a) These limitations do not apply to credit institutions, multiple-purpose financial companies (*sociedades financieras de objeto múltiple*) regulated entities, or auxiliary credit organizations, in the performance of their corporate activities.

b) In the case of capital borrowed for the acquisition of investments or for expenses, or when such investments or expenses are made on credit, and for the purposes of this law such investments or expenses are not deductible or are only partially deductible, the interest derived from the borrowed capital or credit operations shall only be deductible in the same proportion as the investments or expenses are deductible.

c) In the case of interest derived from loans referred to in Section III of Article 143 (credits or loans granted to residents in Mexico) of this law, such interest shall be deducted only upon actual payment in cash, goods, or services.

VIII. In the case of payments that, in turn, constitute income for individual taxpayers, for taxpayers referred to in Articles 72, 73 (coordinated) and 74 (agribusiness) of this law, as well as those made to taxpayers referred to in the last paragraph of Section I of Article 17 of this law (sale of goods or provision of services) and donations, these shall only be deductible when they have been effectively disbursed during the fiscal year in question. Payments shall be considered effectively disbursed when made in cash, via electronic funds transfer from accounts opened in the name of the taxpayer in institutions comprising the financial system and entities authorized by the Bank of Mexico, or in goods other than negotiable instruments. In the case of check payments, they shall be considered effectively disbursed on the date they are cashed or when taxpayers transfer the checks to a third party, except when such transfer is for collection purposes. It is also understood as effectively disbursed when the creditor's interest is satisfied through any form of extinguishment of obligations.

IX. When payments referred to in the previous paragraph are made by check, the deduction shall be made in the fiscal year when the check is cashed, provided that no more than four months have elapsed between the date indicated on the issued tax receipt and the date the check is actually

cashed, except when both dates fall within the same fiscal year.

X. In the case of fees or bonuses to administrators, auditors, directors, general managers, or members of the board of directors, supervisory board, advisory boards, or of any other kind, these must be determined regarding total amount and monthly or attendance-based perceptions, equally affecting the taxpayer's financial results, and the following conditions must be met.

XI. The annual amount established for each person must not exceed the annual salary earned by the highest-ranking official of the company.

XII. The total amount of the fees or bonuses established by the taxpayer must not exceed the total amount of the annual salaries and wages earned by the personnel.

XIII. They must not exceed 10% of the total amount of the other deductions of the fiscal year.

XIV. In the case of technical assistance, technology transfer, or royalties, it must be demonstrated to the tax authorities that the provider of the knowledge has the technical resources to do so, that the service is provided directly and not through third parties, except in cases where payments are made to residents in Mexico, and the respective contract stipulates that the service will be rendered by an authorized third party, and that it does not consist in the mere possibility of obtaining it, but in services actually rendered.

XV. In the case of social welfare expenses, the corresponding benefits must be granted generally for the benefit of all workers. In the case of grocery vouchers granted to workers, they shall be deductible provided that they are delivered through electronic purses authorized for this purpose by the tax administration service.

XVI. In the case of imported merchandise acquisition, it must be proven that the legal requirements for importation were met. The declared amount upon importation shall be considered the acquisition amount.

Deductions for construction costs

The construction industry has a specific deduction mechanism, supported by Article 30 of LISR, as follows:



Taxpayers engaged in construction activities consisting of real estate developments or subdivision of lots, those who enter into real estate construction contracts or manufacturing of fixed assets involving long production processes, and providers of tourism services under the timeshare system, may deduct the estimated expenditures related to direct and indirect costs of such works or services in the fiscal years in which the related revenues are obtained. This replaces the deductions established in Articles 19 and 25 of this Law, which would otherwise apply to each project or service. The estimated expenditures shall be determined for each project or property from which the service revenues derive, by multiplying the taxable income obtained in each fiscal year from the project or service by the total deduction factor, calculated by dividing the sum of the estimated direct and indirect costs at the start of the fiscal year, or at the start of the project or service provision, by the total expected revenue for such project or service on the same date, as provided in this paragraph.

The estimation of direct and indirect costs referred to in the previous paragraph shall exclude investment deductions and remunerations for the provision of subordinated personal services directly related to production or service provision. These must be deducted according to the provisions in Section III of this chapter (cost of goods sold). Likewise, operating and financial expenses must be deducted as stipulated in this law. However, taxpayers engaged in providing timeshare tourism services may include within the estimation of direct and indirect costs the deduction of investments corresponding to the properties allocated to such services, under the terms of Article 31 of this law (investment deductions).

At the end of each fiscal year, taxpayers must recalculate the total deduction factor referred to in the first paragraph of this article for each project or property from which shared services revenues derive, using the data available at that date. This factor must be compared, at the end of each fiscal year, with the factor used in the same fiscal year and in previous years for the corresponding project or service. If, from this comparison, the deduction factor calculated at the end of the fiscal year is lower than any of the previously used factors, the taxpayer must submit amended tax returns using that lower deduction factor, adjusting the amount of estimated deductions claimed in each of the

affected fiscal years

If the comparison shows that the total deduction factor at the end of the fiscal year is more than 5% lower than that previously determined in the same fiscal year or in earlier ones, the taxpayer must pay the corresponding surcharges.

In the fiscal year in which the accumulation of revenues from the project or service provision concludes, taxpayers must compare the actual expenditures incurred corresponding to the direct and indirect costs referred to in the first paragraph of this article—excluding, where applicable, the items indicated in the second paragraph—with the total estimated deductions applied during the period from the start of the project or service provision until the fiscal year in which the related revenues are fully accumulated. Both the actual and estimated expenditures must be updated from the last month of the fiscal year in which they were deducted or incurred, as the case may be, to the last month of the first half of the fiscal year in which the revenues from the project or timeshare service are fully accumulated. Providers of timeshare tourism services must consider as actual expenditures the original amounts of the investments related to the properties from which the service revenues derive, substantiated with documentation meeting the tax requirements.

If this comparison shows that the updated total of estimated deductions exceeds the updated total of actual expenditures, the difference must be added to the taxpayer's income in the fiscal year when the revenue accumulation for the project or service concludes.

For the purposes of the preceding two paragraphs, in the case of timeshare tourism services, it is understood that the revenue accumulation concludes in the fiscal year in which any of the following occurs: 90% of the agreed payment has been received, or five fiscal years have passed since the project or service provision began.

If the comparison referred to in the fifth paragraph reveals that the total updated estimated deductions exceed the updated actual expenditures by more than 5%, the excess will be subject to the calculation of surcharges, starting from the date when the tax return of the fiscal year in which the estimated deductions were applied was or should have been filed. These surcharges must be paid together with

the corresponding tax return.

Taxpayers who opt for the mechanism established in this article must notify the tax authorities of their decision for each project or property from which the service revenues derive, within 15 days following the start of the project or the signing of the contract, as applicable. Once this option is exercised, it cannot be changed. Additionally, taxpayers must submit the information required by the Servicio de Administración Tributaria.

Tax incentives for the construction industry

With the entry into force of the current LISR in 2014, the tax incentive remains in force under Article 191, with certain additional conditions as quoted below:

For taxpayers engaged in the construction and sale of real estate developments.

Article 191. Taxpayers engaged in the construction and sale of real estate developments may choose to deduct the acquisition cost of land in the fiscal year in which they acquire it, provided that they comply with the following:

I. That the land is intended for the construction of real estate developments for sale.

II. That at least 85% of their taxable income derives from the execution of real estate developments.

III. In the case of newly operating taxpayers, they may exercise this option provided that at least 85% of their taxable income in that fiscal year comes from real estate developments, and that they meet the other requirements established in this article.

IV. That, at the time of selling the land, the total sale value of the land be considered taxable income, instead of the gain referred to in Article 18, Section IV of this law.

V. If the sale of the land occurs in any fiscal year following the year in which the deduction referred to in this article was applied, an additional taxable income equivalent to 3% of the deducted amount must be recognized for each fiscal year elapsed between the year of acquisition and the fiscal year immediately preceding the year of sale. For this purpose, the deducted amount shall be updated by multiplying it by the update factor corresponding to the period from the last month of the fiscal year in which the deduction was made

until the last month of the fiscal year in which the 3% is accumulated.

VI. That the acquisition cost of the land is not included in the estimation of direct and indirect costs referred to in Article 30 of this law.

VII. That the public deed formalizing the acquisition of the land includes the information established in the regulations of this law.

VIII. Taxpayers who have not sold the land after the third fiscal year following its acquisition must recognize as taxable income the acquisition cost of said land, updated for the period from the date of acquisition to the last day of the month in which the income is accumulated.

IX. Taxpayers applying the provisions of this article must do so for all their land held as circulating assets, for a minimum period of five years starting from the fiscal year in which the option referred to in this article is exercised.

Discussion of the results

Regarding Article 17, Section IV, second paragraph of the LISR, it refers to the deferred accumulation of income, that is, such income may be considered as accumulable at the time of authorization or approval of the estimations within a period of 3 months; otherwise, it will be until its payment, which benefits construction companies, contrary to what is established in the same article in the first paragraph, subsection (a), issuance of the fiscal receipt.

Deductions

Within the deductions established by Article 27 of the LISR, it is important to highlight, in addition to the requirement that expenditures be strictly necessary, what is stipulated in Section VI of the same provision regarding IVA.

The exercise of the option established in Article 30 of the LISR, to deduct estimated expenditures instead of actual ones, should be analyzed considering the possibility of anticipating actual deductions in the fiscal year when income is accumulated; however, actual deductions must be adjusted for each project. It is important to state that this is not a blind deduction but rather an anticipated deduction that, at a certain point, would generate a deferral of the



corresponding income tax payment, but never its total reduction.

The tax treatment regarding income tax for this type of taxpayer offers advantages in terms of cash flow, since it allows the taxpayer to capitalize during the construction period. They can pay when they have the resources to do so and not before, as normally happens with other legal entities not engaged in these activities.

Regarding the deduction of land acquired for real estate developments, it is an incentive for the construction sector, as it grants the option of considering it as a cost at the time of acquisition, as long as the requirements indicated in the aforementioned article are met.

Thus, if the taxpayer meets these requirements, they may legally opt to make the deductions of the acquired lands from the moment of acquisition itself, without deducting them via the cost of goods sold.

Conclusions and implications

After carrying out this research and based on the results obtained and the conclusions established above, the following recommendations are made:

- Analyze the types of credits and times for their contracting.
- Avoid, as far as possible, contracting working capital credits for the acquisition of fixed assets.
- When receiving supports by governmental decrees, comply with all the requirements for the non-accumulation of income.
- Regarding income from work contracts, review the accumulation period for each business unit, if not paid within three months after their authorization or approval.
- When receiving payment of estimates, the previously received advances should be reduced.
- In the income from the sale of land as indicated in Article 18 of the LISR, bear in mind that the deduction will be made according to Article 19 of the same law, that is, update the original investment amount.
- Do not accumulate as income those amounts

received from contributions, obtained profits, asset revaluations, etc.

- Regarding deductions.
- Carefully apply Section VI of Article 27 of the LISR regarding the separation of IVA for deduction purposes.
- Regarding Article 30 of the Ley de Impuesto sobre Renta, estimated deductions should have well-defined direct and indirect costs for the calculation of the deduction proportion.
- Regarding Article 191 of the LISR; purchase only the land that is going to be developed
- Avoid exceeding the marketing period to avoid the accumulation of the total price of the land.
- Accumulate 3% of income concerning the balances of already deducted lands.
- When contracting the provision of partial construction services, it is advisable that it be for the entirety of the project in which material and labor are supplied.
- When making partial contracts, demand the separation of IVA to avoid non-deductibility.
- For the construction sector, the use of resources from credit institutions, as well as from federal government funds, is very important, since through these the development and growth of this industry are strengthened.



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Table 3. Speeches related to living, place and imaginaries

Interview	Narratives: Opinion about the place where they live	Categories related to dwelling, place and imaginaries.
1	It's a quiet place, but insecurity is hitting hard	Place
2	It seems a quiet place, not very unsafe, but the neighbors are not friendly	Place and dwelling
3	Me parece un lugar tranquilo, cómodo y seguro, cubre las necesidades	Place and imaginaries
4	It's quiet and pleasant place at the same time	Place and dwelling
5	It's a quiet neighborhood with people who've lived there a long time	Dwelling and place
6	Very quiet	Place
7	It's a quiet neighborhood but far from study centers	Place and dwelling
8	It's a place where you can do many activities	Place and dwelling
9	I like it	Imaginaries
10	Good place to live, I feel it could be better, there's tranquility	Imaginaries and place
11	It's a quiet area in terms of security, there's a police station	Dwelling and place
12	I like it a lot, one of the quietest places in the city	Place and dwelling
13	It's a very complete well-planned area, not very dense	Place and dwelling
14	Lacks social infrastructure	Place
15	Very quiet place	Place
16	It's a good place to live	Place
17	I consider it a quiet place, you can do desired activities	Place and dwelling
18	It's very pleasant, socially no issues, I don't interact with my neighbors	Place, dwelling and imaginaries
19	I don't like it, it's unsafe but that's where I live	Imaginaries and dwelling
20	I like the place because is not in a gated community	Place and imaginaries
21	It's fine, I like it	Imaginaries
22	I like it a lot	Imaginaries
23	Lacks more vegetation, pacing, space for bicycles	Dwelling and imaginaries
24	It's very livable, you can live well	Dwelling
25	It's a safe place	Dwelling and place
26	Needs more vegetation	Dwelling

Source: Ramón L. Moreno M. (2015-2016) Field Work Archives

