Hello,

Welcome to this session on the SAP Country Version Mexico.
SAP Country Version Mexico.

We will talk about the localization of Mexican specific functionality.
Objectives
After completing this lesson, you will be able to:

- Understand Mexico’s localization requirements.
- Outline Mexico’s localization features.
- Explain Mexico’s localization features in Financials, Logistics, Materials Management, Sales & Distribution, Human Resources and Payroll.
- Understand the solution support and the rollout strategy.
Content
This is what I have prepared for you:
Starting with some quick facts on the country version for Mexico, you will gain insight into the requirements that have to be met.

It will briefly cover the features offered in the country version for Mexico in the area of Financials, Logistics, Materials Management, Sales & Distribution, Human Resources and Payroll.
So let’s start with some quick facts on the Country Version Mexico.
Key Strengths:

• Country Version Mexico started in 1997 as part of the standard ERP system. First with FI, LO. Then, in 1999, with HCM, PY (private sector) and in 2003 with Payroll for Public Sector.

• It provides legal compliance features for various business transactions, enabling businesses to run better. Both development and support for these features are completely provided by the highly skilled team located in Germany, India, and Brazil, which are among the largest research and development centers in the SAP Labs network across the world.

• The Mexican country version is operational in most of the top business corporations in Mexico across industries.

Challenges:

There are two major challenges here:

• Mexico has a complex system of taxation procedures. Besides, there are several taxes and legal reports that are mandatory for the companies doing business in Mexico.

• The second challenge relates to legal changes in Mexico, which are often released in an unplanned manner and on short notice.
We will now go through the Mexican requirements. We will have a look at the taxation structure, which is the base for compliance rules for business taxation supported in the Country Version Mexico.
In Mexico, the way a company is identified as a tax contributor is through its tax number.

The tax number in Mexico is called “RFC”, which stands for “Registro Federal de Contribuyentes”. This RFC is composed of 12 characters:

- The first 3 characters are for the initials of the company’s name
- The next 6 numbers define the year/month/day of when the company was created.
- The last 3 numbers are random numbers determined by a government algorithm

The vendors’ and customers’ tax numbers are also required to be maintained in the system because this information is needed in some tax reports.

Besides the tax number, the government in Mexico also classifies the contributors into the 2 following types:

- Goods Seller
- Service Provider

The control of this classification is necessary for the transactions done with vendors. In case a vendor has both classifications, for example SAP, the transactions have to be identified depending on the classification type.
Mexico has three main tax types:

1. **Income tax**, in Spanish called “ISR” (“Impuesto Sobre la Renta”)
   This tax is calculated based on the company's profit made during a fiscal period.

2. **Value added Tax**, in Spanish called “IVA” (“Impuesto al Valor Agregado”)
   This tax is calculated based on the goods or service value. There are three different tax rates:
   a. VAT rate, which applies in the whole country.
   b. 0% VAT rate, which applies to specific local goods/services and for all imported goods/services.
   c. VAT exempt, some goods are exempted of VAT.

   The government requires the classification of these four VAT rates that have to be detailed in the periodic tax declaration.

3. **Special tax on production and services**, in Spanish called “IEPS” (“Impuesto Especial Sobre Productos y Servicios”)
   This tax only applies to specific goods produced such as cigarettes and alcoholic beverages. The IEPS tax is only detailed for the first purchaser of the goods/services; if the goods are sold again, the IEPS tax amount will be included in the unit price of the goods.
   When the IEPS is detailed in the invoice, then the VAT base amount includes the goods/service amount + IEPS amount.
In 2002, the government defined that the taxes: VAT, IEPS, have to be reported on Cash flow basis. This means that only when the payment is done, the tax can be reported. For bank transfers and credit card payments, the payment (cash flow) is considered at the time the payment is posted in the system. For checks, the payment (cash flow) is not considered when the payment is posted in the system, but when the check is cashed in the bank.

To be able to meet this requirement, the standard deferred tax functionality must to be used. This functionality requires the following:
- Normal and deferred tax codes
- Tax accounts and deferred tax accounts
- Bank account statement import and clearing (for payments by check)
- Execution of the tax transfer program at the end of the period

Using the deferred tax functionality, at the invoice time, the tax is posted to a deferred tax account via a deferred tax code.

When the invoice is paid, the tax transfer program automatically creates (via batch) the tax transfer from the deferred tax account to the real tax account. If the payment is only partial, the transfer of the tax is done proportionally to the payment amount.
The withholding tax is applied to specific vendors, goods/services purchased or some goods sold.

According to a law passed on January 1, 2002, the income tax, VAT, and IEPS tax have to be reported at the payment time.

The withholding tax is applied based on the vendor or goods/services:
- A vendor might have income tax withholding, VAT withholding, or BOTH.
- Goods or services can have only VAT withholding or also IEPS.

The base amounts for the withholding tax calculation depend on the tax type:
- Income Tax: Net amount of the transaction
- VAT: VAT amount
- IEPS: IEPS amount

Whenever a withholding tax is applied to a vendor, a withholding Tax Certificate has to be issued.

The control of the withholding taxes can be done using the standard extended withholding functionality, which includes:
- Define extended withholding tax types and codes
- Define tax withholding accounts
- Define withholding tax code(s) in vendor master data and material master
- Withholding tax report
- Withholding tax certificate
The system includes a list of reports that supports the companies in the determination of the data for the different accounting and tax reports required in Mexico.

Legal Reporting and Formats (1/2)

ACCOUNTING
- Balance sheet and P&L standard reports
- Electronic Accounting Reports

TAXES
- Advanced return for tax on sales/purchases
- Transfer postings deferred taxes
- Generic withholding tax reporting
- Withholding tax certificate (paper format 37-A)
- Report A-29 – DIOT (Third Parties’ transactions)
Mexico does not have standards in the bank payment formats.

Each bank defines its own formats, sometimes more than one format per payment type (such as bank transfers).

The system supports two formats but in case a different one is required, the standard DME tool allows the definition of any format.
In Mexico, there are 2 different types of official documents:

- Invoices
- Credit/debit memos

Digital Documents: **CFDI: “Comprobantes Fiscales Digitales por Internet”**

- The legal documents (invoices, credit/debit memos) require an approval from the government before they are sent to the customers.
- The approval is done via internet via a Third Party companies (“PAC: Proveedor autorizado de certificación”) certified by the government to do the approval on its behalf.
All companies in Mexico must submit their Digital Invoice with the e-Payment “Complemento de Pago” from all payments received from their customers.

e-Payments must include the reference to the document that is been payed.

Digital Invoice with e-Payment must be submitted to the customers, considering all technical specifications from the government.

The generation of the e-Payments (“complementos de pago”) is based on the clearing of payments and invoices, credit memos.
There are several notes that contain relevant information for Digital Invoice and e-Payments.

We strongly recommend to carefully review these notes before to start the implementation of that functionality.

The notes are available for you in our SAP Support Portal.
In Mexico, whenever goods are imported or exported, the government issues a custom document called “Pedimento”. This document is the proof that the good has legally entered/ left the country.

The government keeps track of these custom document and requires the companies to refer to them in reports and legal documents.

The data required from the import’s “Pedimento” are:
- Pedimento’s number
- Pedimento’s date of creation
- Pedimento’s custom office where it was issued

The import’s pedimento needs to be linked to the material when it enters the inventory.

To register the import pedimento’s data, the batch functionality is used. The data is defined in different attributes fields. Using the Digital Invoice functionality (BAdI), this information can be included in the sales invoice and monthly report.
Now let's talk about the SAP solution for Human Resources and Payroll in Mexico.
For Human Resources in Mexico it is required to maintain specific information related with employers as well as with employees.

- With employers: All the companies in Mexico must have a fiscal ID code as well as Social Security ID code. Also it is quite important to register the address of all company’s work centers. From the work center address, we need to identify the state. The state is relevant for state tax calculations.

- With employees: All the employees in Mexico should have a Population ID code, which uniquely identifies each person in Mexico. Besides, Fiscal and Social Security ID codes are required. Also it is important for each person in Mexico to register their second last name.
Concerning time data, there are some specific requirements for Mexico that are already covered by SAP Mexican Payroll.

- **Overtime**: Overtime is paid double or triple depending on the Mexican Work Law terms.
- **Vacation quotas and vacation bonuses**: The Mexican Work Law establishes the rules to grant these benefits for employees. Each company is able to pay a higher number of days. This can be solved by standard customizing.
- **Sunday worked premium**: The Mexican Work Law says that a bonus percentage should be paid for those employees that work Sundays (assuming that Sundays are non-working days).
- **Non-working days worked**: If the employee works on a non-working day, then the employer is obligated to pay an extra bonus for such time worked.
- **Absences and incapacities** are also relevant for Social Security, because -- depending on the kind of nonattendance -- the Social Security contributions might be affected. There are several types of absences and incapacities provided by SAP Model company, but each customer can create their own.
Taxations, exemptions, and taxes are calculated according to Tax Law and Tax Regulations as well as to Best Practices. Depending on the kind of payment, the customers can select from a wide variety of tax methods. Besides, the customer can create their own tax calculation. At the end of the year, the companies can apply the annual tax adjustment to those employees that fulfill the conditions established by Law.

The State tax is calculated according to the most common business practices in Mexico.

For Social Security, the Mexican payroll provides the Integrated Daily Salary calculation including fixed earnings and variable incomes. Also, it is possible to generate the legal notifications for any event that is relevant for Social Insurance like hiring, salary changes, terminations, absences, and incapacities. SAP Payroll also calculates the corresponding contributions to employer and to employee.

In February of each year, the companies are obliged to calculate, by their own, the work risk factor. SAP Payroll provides the ways to register the relevant data during the year to generate such information that needs to be transmitted to the Mexican government.
Mexican payroll processing includes Model configuration and calculation rules to generate the most common wages for Mexico. For example:

- **Savings fund and food tickets.** For savings, the company contributes the same amount as the employee. Food tickets are supplied by third-party companies requested by the employers.
- **Housing and furniture credits.** These are handled in SAP Payroll according to the legal procedures established by the Mexican government.
- **Off-cycle payments.** This allows the company to generate special payments for specific employees regardless of their regular payments.
- **A Christmas bonus.** This is usually paid in December for those employees that worked for the company during the fiscal year.
- **Profit sharing.** This is paid mostly in an off-cycle process, even for employees that left the company.
- **Terminations.** These can be processed at any time, even for future dismissals as well as for old firings.
- **Reversal payments.** This allows the company to cancel payments done in the past. This procedure reverses not only accumulations but also Financial postings.
- **Intercompany payments.** These are used to paid incomes from third party companies.
- **Concurrent employment.** This allows a company to handle several contracts for a single employee. Each contract can have its own independent organizational assignment, salary, shift planning, relevant dates, and so on.
- **Specific calculations.** These are done according to Public Sector legal requirements.
As the same as for FI/SD, Mexican payroll payments must be digitally invoiced. This is mandatory for all the payments that employees receive. This is the equivalent to pay slips but in a XML file.

According to “Anexo 20”, the main body of the layout is the same than for FI/SD. For payroll payments the layout must include an annex named “Complemento de nómina”. On such “complemento”, the detailed information about earnings and deductions is included.

All of these digital documents must be certified and sealed by a Government’s official third provider named “PAC”.

Each company can customize their own wage types in the customizing tables provided by SAP. A model customization is delivered as an example.

Also, for complex Business requirements, a BAdI is provided by SAP to generate the proper information in the digital document.
Legal reporting specific for Public Sector Payroll

ISSSTE
- Afiliatorios movements
- Solidarity savings contributions
- ISSSTE loans
- Sheet service (seniority report)
- RUSP

FOVISSSTE
- FOVISSSTE loans

CONSAR
- SAR contributions

- **Afiliatorios Movements.** The employee events like hiring, terminations, and modifications are sent to the Social Security Institute using the official file.
- **Solidarity Savings Contributions.** Employees that decide to contribute to their retirement fund (voluntary contributions) with an extra amount may do so.
- **ISSSTE Loans.** Public workers can request loans to buy basic appliances. The details of the discounts are sent to ISSSTE through legal reports.
- **Sheet Service or Seniority Report.** SAP Payroll is able to generate the Sheet service. This document is a requirement for employees that wish to start their retirement process.
- **RUSP.** This is a report that contains basic and technical information about human resources. The information is sent to Government, so they can collect all the relevant information related to Public Sector employees.
- **FOVISSSTE.** This Institute is in charge of managing housing credits to public workers. Therefore, this legal report is used to notify the corresponding loans deductions applied during payroll processes.
- **CONSAR.** CONSAR is the national pension system, is responsible for handling the employers’ contributions related to retirement funds and housing funds. This report is used to notify the corresponding contributions calculated on each payroll period.
Solution Support

This was a brief overview of the functionalities included in the Country Version Mexico. Now let's look at some other significant aspects.
Let us start with the support and rollout of the Country Version Mexico.

- There are a number of informative Notes available in the SAP Notes repository, which includes FAQs about various functionality points and installation notes. Please refer to the Appendix slides for the same.

- Legal changes, coming unplanned during the year are rolled out smoothly via SAP Solution Notes, which can be applied directly to the customer systems.

- SAP Announcement of Legal change portal contains information about each legal change that is available for customers.
Lesson Summary

You should now be able to:

- Explain Mexico's localization requirements around legal compliance
- Give an overview of Country Version Mexico
- Explain Mexico's localization features in Logistics, Financials, Materials Management, Human Capital Management, Employee Central and Payroll (for Private & Public Sectors)
- Describe solution support and rollout

Now you are able to:

- Explain Mexico's localization requirements around legal compliance
- Give an overview of the Country Version Mexico
- Explain Mexican localization features in Logistics, Financials, Materials Management, Human Capital Management, Employee Central and Payroll (for Private and Public sectors)
- Understand the solution support and rollout strategy in the Country Version Mexico
- Outline the recommendations for the implementation of the Country Version Mexico
Thank you for your patience and attention during this session! To submit additional questions or feedback, you may contact us by the emails provided here. Have a Nice Day!