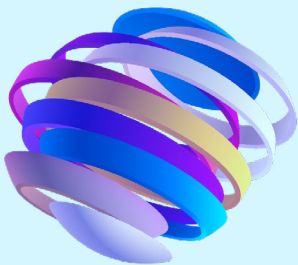




Latin America Tax Directors' Insights: Actionable tips to help you adapt, innovate, and thrive

Volume 2

Senior tax directors with responsibilities in Latin America (LATAM) convened in August 2025 to share their insights on their most pressing priorities at the **KPMG Latin America Tax Director Peer Exchange**. Their collective wisdom underscores the imperative for proactive measures to address the unique challenges faced by tax departments in LATAM, to help ensure that companies remain competitive and efficient amid a rapidly evolving landscape.



Current challenges include:



Managing the increased complexity of Mexican tax audits



Collaborating with Mexico's tax ombudsman



Documenting deductions and transactions for audits in LATAM, even years later



Addressing the uncertainty of VAT implementation in Brazil



Challenge:

Managing the increased complexity of Mexican tax audits

- 1. Establish a dedicated internal tax controversy team:** Consider creating and empowering a specialized internal team, composed of members from various functions like finance, tax, and business, whose primary focus is managing tax audits, rather than treating this as a secondary task.
- 2. Proactively engage and negotiate with Mexican tax authorities:** Actively foster clear communication and negotiation with the Mexican tax authorities to understand their objectives and seek practical settlements, rather than passively awaiting audit outcomes. Consider legal advisers that are skilled in this to further enhance these efforts.
- 3. Develop strategic negotiation scenarios:** Take a proactive stance and prepare for audits by outlining acceptable payment scenarios, ranging from lower to higher amounts, to facilitate negotiations and avoid costly, prolonged litigation, recognizing that a “zero scenario” is unlikely.
- 4. Strategically leverage external legal advisers:** While a company’s legal representatives should lead direct discussions, consider engaging reputable external advisers—especially those with prior tax administration experience—to gain valuable insights into the authorities’ perspectives. External advisers can handle the initial approach on the self-correction proposal, and the legal representative closes the negotiation with the tax authority.



Challenge:

Collaborating with Mexico's tax ombudsman

- 1. Streamline negotiations:** Utilize the ombudsman’s “conclusive agreement” process to allow for thorough and comprehensive negotiations and present technical defenses, helping to clarify audit scopes. Successful negotiations rely on robust evidence and thorough preparation. This helps facilitate defense positions, the collection of information, and the refinement of audit scopes by addressing specific issues.
- 2. Strengthen evidence and support for tax positions:** Successful negotiations rely on robust evidence and strong, well-articulated explanation and views to support a company’s tax positions. Consider legal advisers with experience in developing detailed working papers with specific cross-references to ensure thorough internal documentation. Further, technology can assist in collecting pertinent information.
- 3. Prioritize negotiation to avoid litigation:** Focus on negotiating agreeable solutions with the tax authority to prevent the audit from escalating to a final assessment and legal dispute. This approach aims to reduce the significant workload and costs associated with prolonged litigation for both parties.
- 4. Prepare for unexpected challenges by maintaining technical precision:** Ensure technical documentation and a detailed understanding of the facts to effectively address any nontechnical negotiation approaches. This proactive technical defense is essential, even when companies are confident in their position.





Challenge:

Documenting deductions and transactions for audits in LATAM, even years later

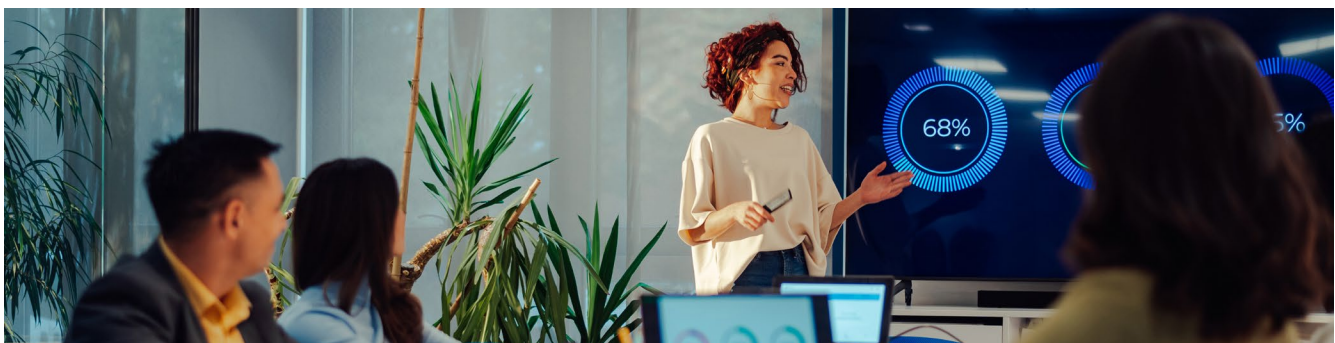
- 1. Proactively develop comprehensive files:** Create and consistently maintain files well in advance of any audit, especially for intercompany charges and deductions, to anticipate and effectively address potential claims. Although not mandatory, this is essential for readiness.
- 2. Ensure timely documentation and evidence collection:** Collect and organize all supporting evidence at the same time as the relevant transactions. Retrieving information years later can be very challenging due to issues with archived data, personnel changes, and system updates. Like transfer pricing reports, documentation needs to be timely to be most effective.
- 3. Document four key pillars for deductions:** Ensure that all documentation for deductions clearly demonstrates the following four key pillars: indispensability, a valid business reason, materiality, and proper transfer pricing (if applicable). These pillars are fundamental for creating a robust documentation file that meets tax authorities' expectations and helps mitigate challenges.
- 4. Strengthen internal cross-functional collaboration for evidence:** Form a specialized team with representatives from various internal functions, such as finance, business, and operations, to work together to efficiently gather and provide comprehensive evidence for audits. Involving multiple departments helps address the challenge of securing documentation from outside the tax department and helps ensure that information is readily available, even when ERP systems are updated or personnel change.



Challenge:

Addressing the uncertainty of VAT implementation in Brazil

- 1. Actively monitor and participate in tax reform discussions:** Engage proactively in market discussions, seminars, and industry events related to the tax reform to gather as much information as possible, even in the absence of official government specifications. There are a significant number of these events in Brazil, highlighting a collective effort to comprehend the changes.
- 2. Prepare with current information, anticipating flexibility:** Implement the necessary system and process changes according to the current rules, while staying vigilant for potential flexibility or leniency from authorities regarding initial compliance requirements due to the lack of clear guidance.
- 3. Clarify project leadership and cross-functional roles:** Organizations should clearly decide whether the tax team or an external project manager will lead the tax reform implementation. This helps ensure smooth coordination across all relevant functions, including commercial, legal, regulatory, and business teams. This decision is important because there are differing opinions on leadership. Some people believe that the tax team should take the lead as strategic partners, while others prefer a neutral project manager. Clearly defining the leadership role helps address and reconcile these differing viewpoints.
- 4. Proactively address state-level ICMS concerns:** While focusing on federal VAT changes, also prepare for potential challenges related to state-level ICMS value-added tax on sales and services changes. There is uncertainty about whether all states will fully comply with the reform's intent.



Resources



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