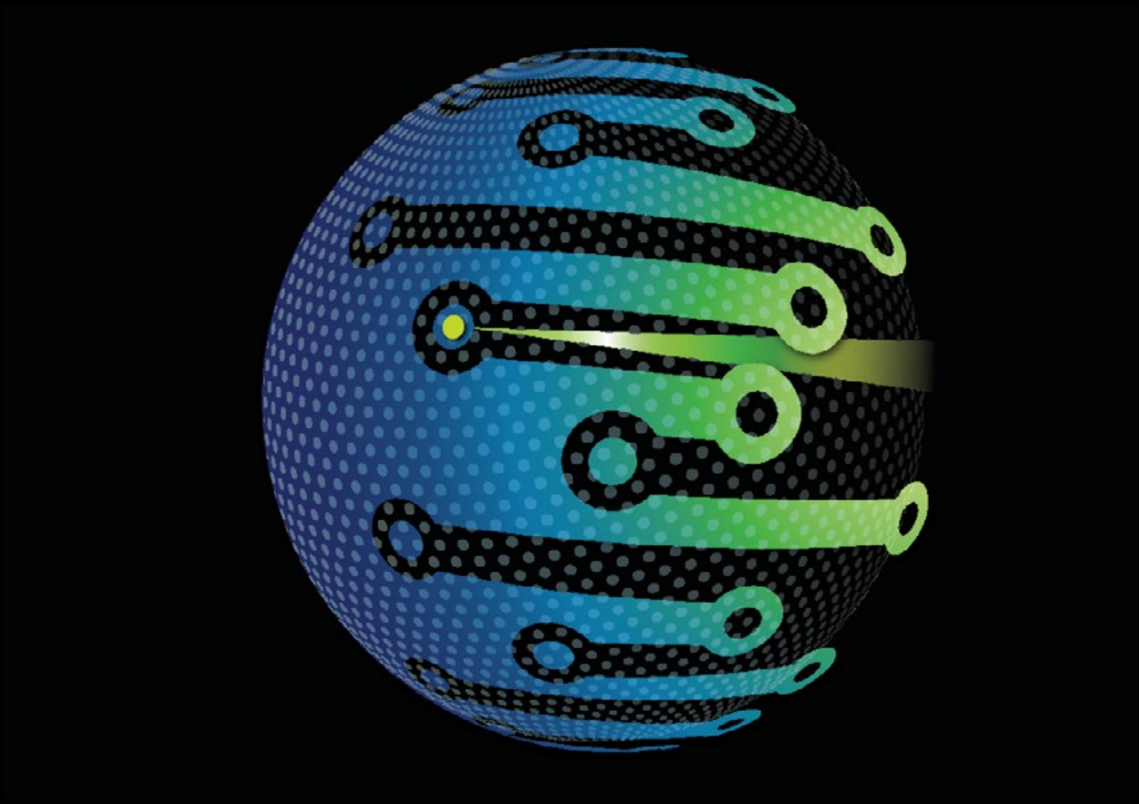
Tax Alert
February 2025



Tax Alert

Important aspects to consider in the Annual Settlement Report and Refund of Excess Employee Withholdings

Companies must withhold Income Tax monthly from all employees, starting in January of each year or upon commencement of their employment. For such purpose, the employer, as the withholding agent, must make a tax projection, as well as any updates when applicable, and finally, make the annual tax settlement.

For the tax settlement, in January of each year, employers must reconcile the Income Tax withheld from their employees with the tax determined on the employee's updated taxable income, after considering all deductions allowed by law, including the following:

1. Up to Q.12,000 tax credit for the Value Added Tax -VAT-, which must be documented with the VAT-FEL statement.
2. 2.Donations not exceeding 5% of the employee's gross income, documented with receipts and tax solvencies.
3. 3.Life insurance premiums to cover risks solely in cases of death of the employee, provided that the insurance contract does not include any sum for return, reimbursement or surrender.

The above must be reported to the Tax Administration during the first 2 months of the following calendar year, that is Friday, 28 February 2025, through the Annual Settlement Report and Refund of Excess Employee Withholdings. Consequently, there are important aspects to be considered:

1. If the employer determines that excess Income Tax was withheld from its employees, the excess amounts withheld must be refunded by no later than Friday, 28 February 2025.

   The employer may deduct the amount of the refunds made to employees from the total withholdings payable to the Tax Administration in the following months, until the entirety of the refunds is covered.

2. If the Annual Settlement Report and Refund of Excess Employee Withholdings shows an Income Tax balance pending withholdings, it would be interpreted that the employer did not correctly make the employee withholdings, which could result in formal penalties for failing to act as the withholding agent, as well as a possible adjustment to the deductibility of the salaries and wages that were not subject to Income Tax withholdings.

3. In addition, if there is any amount of Income Tax pending withholdings upon settling the tax, the employee must file the annual tax return (SAT-1431) with the Tax Administration and directly pay the tax.

The fine for failing to timely file the Annual Settlement Report and Refund of Excess Employee Withholdings is Q.5,000 for the first offense, Q.10,000 for the second offense, and if the taxpayer fails to comply more than twice, the applicable fine is Q.10,000, plus 1% of the income obtained by the taxpayer during the last month in which they declared income.

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