

Issue
No. 132

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Navigating the Challenge of
Achieving Seamless VAT
Refund Processes

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October, 2025

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Navigating the Challenge of Achieving Seamless VAT Refund Processes

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- Agile, successful VAT refunds are a critical lever for liquidity and operational continuity.
- Most SAT denials do not arise from fraud; they result from formal errors or documentary gaps that can be avoided through rigorous internal controls and process discipline.
- A successful refund hinges on both robust accounting support and the ability to evidence the materiality and consistency of transactions before the tax authority.

Across Mexico, companies repeatedly encounter the same issue: securing refunds of VAT credits. Though the mechanism is designed to be agile and transparent, it has evolved into a lengthy, intricate process that can entail legal exposure when not managed with strict technical discipline.

When Does a VAT Credit Balance Arise?

A VAT credit balance arises when creditable VAT (input VAT paid on purchases) exceeds transferred VAT (output VAT charged on sales). This situation is common in sectors or phases where outlays are higher than revenues, such as:

- Primary activities (agriculture, livestock, fishing)
- Sale of medicines, taxed at a 0% rate
- Exporters of goods or services
- Pre-operational periods, where expenses are incurred before sales begin
- Capital investments or expansion projects

In all these cases, the excess VAT paid becomes **an amount in favor of the taxpayer, which may be requested as a refund or credited against future**

returns.

Legal Framework and the Supreme Court's New Jurisprudence

Refunds are governed by Article 6 of the VAT Law and Article 22 of the Federal Tax Code, which empower the SAT to review and approve refund applications. However, recent jurisprudence of the Supreme Court of Justice of the Nation (2025) has changed the rules of the game:



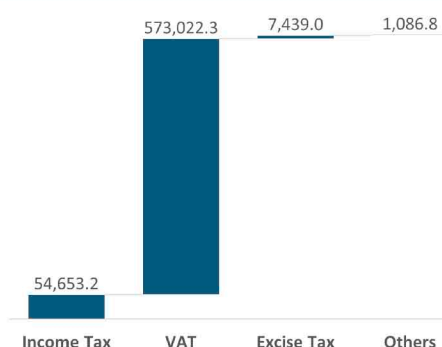
If the SAT denies a refund due to formal defects—such as missing documents or incorrect vouchers—the taxpayer may no longer refile the same request unless the denial is challenged within the legal deadline.

In the past, it was sufficient to correct errors and resubmit the request; today, **failing to challenge a denial definitively forfeits the right to claim that VAT credit balance.** This new reality compels companies to approach each refund application with absolute precision and comprehensive documentary support from the outset.

Operational Reality: Delays and Unsuccessful Refunds

Although the SAT reports that VAT accounts for roughly 90% of all refunds processed each year, resolution timelines frequently extend well beyond the 40 business days established by law—reaching, in some cases, more than a year.

Refunds Issued by the SAT by Type of Tax
(January–August 2025, in millions of pesos)



Source: Competimex, S.C., based on SAT data.

For companies with limited cash flow—particularly SMEs—such delays can create liquidity pressures that hinder their ability to meet supplier obligations or payroll commitments.

The Most Common Causes of Rejection

Most SAT denials are not the result of fraud or simulated transactions, but rather of administrative errors or documentation deficiencies. These can generally be classified into two categories:

1. Formal Errors

- Missing mandatory documents or illegible files
- Use of incorrect formats
- Inconsistencies in the electronic signature or within the SAT portal

2. Substantive Errors

- Incomplete working papers or lack of proper accounting support
- Expired or non-existent contracts
- Lack of alignment between contracts, invoices, and deliverables
- Delayed responses to information requests
- Confusing or non-transparent accounting records

Critical Issues: Materiality and Documentary Support

One of the most sensitive aspects in tax reviews is

is the materiality of transactions—that is, the evidence proving that the operations actually took place.

This concept, linked to Article 69-B of the Federal Tax Code—which penalizes so-called “shell companies” that issue invoices for simulated operations (EFOS)—requires that every transaction be backed by solid documentary evidence, including contracts, invoices, and tangible proof of execution.

The tax authority pays particular attention to transactions subject to a 0% VAT rate, such as exports or the sale of medicines, where refund amounts tend to be significant and audits more exhaustive.

Business Best Practices

To mitigate risks and expedite refund processes, companies should adopt a more integrated and collaborative tax management approach:

- Engage multiple departments—including accounting, operations, sales, and procurement—in preparing the refund file. Their technical input enables clear and timely responses to the tax authority.
- Verify the status of suppliers, particularly with respect to the list established under Article 69-B.
- Maintain updated contracts that are consistent with invoices and deliverables.
- Keep organized, digital documentation of all transactions that give rise to VAT credit balances.

The VAT refund process is far more than a routine accounting procedure—it is a strategic liquidity matter. Formal errors, recent Supreme Court jurisprudence, and lack of internal coordination can cost companies time, money, and fiscal rights.

In this context, **success lies not in speeding up the procedure, but in preparing it with rigor, consistency, and solid support from the outset.**

At Competimex, S.C., we provide specialized consulting services to support the successful recovery of VAT credit balances, enabling regulatory compliance while maintaining the continuity of day-to-day operations.

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25 years

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