



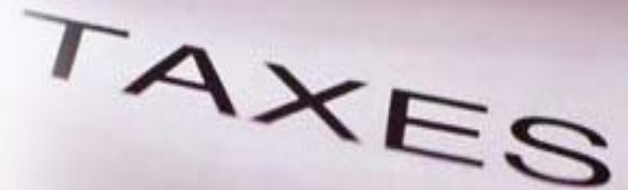
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# Taxes in Mexico



## FEDERAL TAXES

Income Tax	28%
Value Added Tax (VAT)	15%
Asset Tax (to be abolished in 2008)	1.8%
Special taxes on:	
Production and services	
LETU (flat rate business tax)	16.5%
Bank deposit tax	2%



TAXES

## ESTATE TAX

Real estate acquisition tax 2%

Payroll 2%

## LOCAL TAX

Real property tax



TAXES

## IMPORTANT FEDERAL TAX PROVISIONS

### Registration with the Federal Taxpayer's Registry (RFC)

The federal tax authority maintains a registry where all taxpayers must apply for a registration number.

### Mode and dates of payment

Tax must be paid monthly, by the 17th.  
Annual declaration March and April.  
Payment made through the internet  
or at a bank.



# IMPORTANT FEDERAL TAX PROVISIONS

## Fiscal Period

The fiscal period must be **twelve months for legal entities and individuals**, coinciding with the **calendar year**, except for the initial and liquidation periods.

Therefore, the start and closing dates must always be Jan. 1 and Dec. 31, respectively. This period does not apply in settlement or liquidation of an entity.

## Updating (Restating for Inflation)

Late tax payments will be **restated using inflation indices** from their due date to the actual date of payment. Interest for late payment and penalties are computed on the updated taxes.

## Rules and Formalities

Tax laws have to be applied strictly, follow the rules for expenses and deduction to avoid major headaches.

## TAXES

### Income tax (*Impuesto sobre la renta*)

Persons with Mexican or foreign nationality, who reside abroad and obtain income in Mexico, are obliged to pay income tax.

### Business Organizations tax rate

For 2007, the corporate income tax rate is **28%**.

### Gross Taxable Income

The Mexican Income Tax Law establishes that corporate gross taxable income must include any income received in **cash, goods, services**, credit or any other form during the year.



## Recognition of Revenue as Taxable Income

Depending on the activity, **corporations must recognize revenue as taxable income** when selling goods or rendering services when:

- a) An invoice is issued
- b) The goods are shipped or delivered or a service is rendered
- c) The price is totally or partially collected, including advance payments, whichever occurs first



## AUTHORIZED DEDUCTIONS

There is a series of **requirements that must be met for a taxpayer** to take deductions:

- The deductions must be **strictly indispensable** for carrying out the taxpayer's trade or business
- The **invoices** must comply with tax requirements
- The payments must be made with a **nominative check**, except as stated in the corresponding regulations
- The deductions must be **recorded** in the accounting records

## PERSONAL TAXES

**In arriving at taxable income, individuals are granted the following deductions (there are also others not listed):**

- 1) Medical and dental fees and hospital expenses paid in Mexico
- 2) Funeral expenses deducting amounts reimbursed by third parties
- 3) Donations approved by the tax authority

**The law classifies personal income as follows:**

- 1) Personal services
- 2) Business and professional activities
- 3) Leasing of real property
- 4) Sale of property
- 5) Acquisition of property
- 6) Other income

**The following paragraphs discuss the most important provisions relating to exemptions, deductions, and the tax treatment for most kind of income:**



## Income from Personal Services

**In general, individuals who are paid as employees, directors, managers, or statutory examiners are taxed on all amounts received as salaries, wages, or fees for personal services.** Annual deductions apply.

## Business Activities and Professional Services

**Income obtained by individuals from business activities, the rendering of professional services, artistic and the rendering of independent services are subject to tax.** Individuals residing abroad with a permanent establishment in Mexico are subject to tax on income derived from personal services attributable to such establishment.

**The deductions must be effectively disbursed, strictly indispensable for carrying out the trade or business, among other requirements, in order to be claimed.** When taxpayers render professional services to legal entities, the entities must withhold as provisional payment, 10% of the amount paid, with no deduction allowed and must provide evidence of this withholding to the taxpayer. This tax may be credited towards the monthly estimated tax payment.

## Leasing of Real Property

All income derived from granting the use of real property, is taxable. To calculate the taxable income, taxpayers may choose between deducting 35% of all real property rental income (blind deduction), or **the following authorized deductions:**

- 1) Real property tax
- 2) Maintenance expenses and water consumption taxes
- 3) Interest on loans used for the acquisition or improvement of leased property
- 4) Salaries, commissions, and fees paid which are necessary for obtaining rental income
- 5) In the case of sub-leasing, taxpayers may only deduct the actual rent paid to the lessor

When the lease payments are made by a legal entity, **10% of the amount paid must be withheld by the entity** with no deduction, as provisional tax payment, and evidence must be provided to the taxpayer. The taxpayer may credit this amount in his or her monthly estimated tax payments.

## Sale of Property

**In general, income from the sale or transfer of property is taxed on the profit obtained. However, certain exemptions are considered, as follows:**

- 1) The gain obtained from the sale of the taxpayer's personal residence is non-taxable, provided that the real property was the taxpayer's personal residence for at least the prior six months.(one in a year).
- 2) Transfer of ownership due to death or donation.
- 3) Sales of properties made by taxpayers as payment or judicial award by complying with certain requirements provided by law.



## Deductions on Sale of Property

The expenses made by the taxpayers regarding the acquisition and/or sale of assets, including acquisition cost, construction, improvements and additions; notary expenses; taxes and fees; and commissions, brokerage and appraisal fees, amongst others, are considered authorized deductions.

## Acquisition of Property

The appraised value of any property obtained as a result of a donation (unless otherwise excluded), and treasures, as well as constructions, installations and permanent improvements to real property when the lessor becomes the owner of such improvements upon expiration of the agreement, is considered taxable income from the acquisition of property.

**Estimated tax payments are calculated by applying a rate of 20% on the gross income and are payable within 15 days following the date of the transaction.**

## Interest

If real interest is the only income obtained by the taxpayer and it is less than **MXN \$100,000**, no annual return is required to be filed. In this case, the withholding made by the interest payer is considered to be the final tax payment.

If real interest and income from personal services exceeds **MXN \$400,000**, the taxpayer should file an annual tax return.

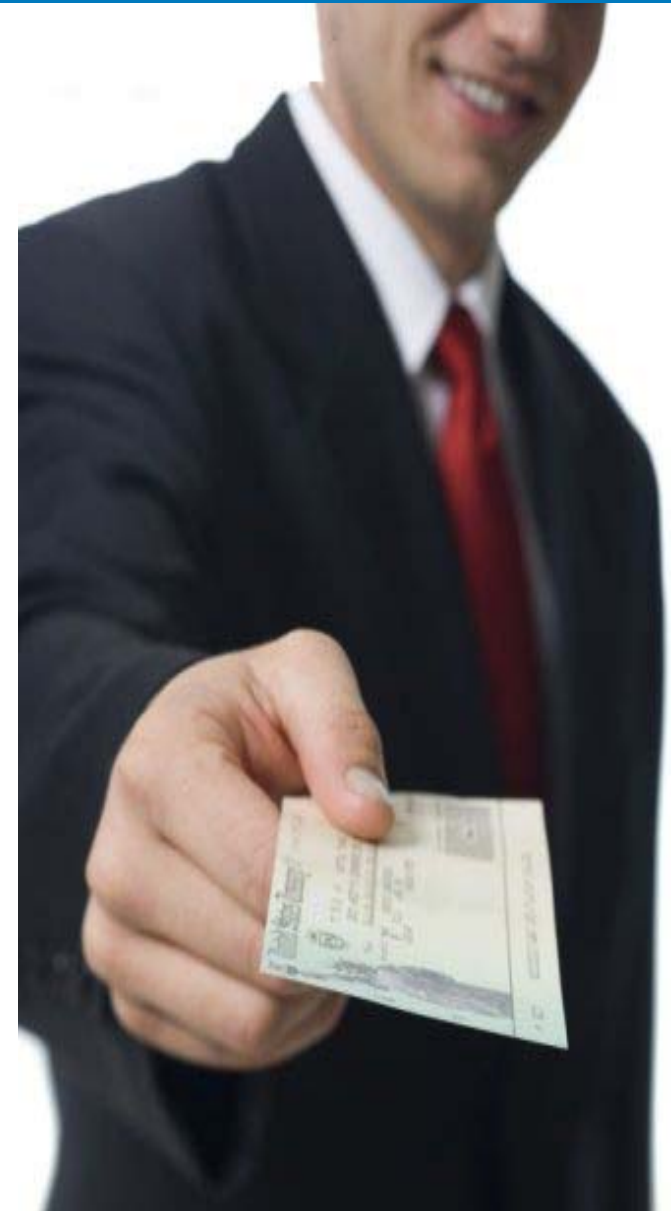


## Non-resident Taxpayers Who Obtain Income from Mexican Sources

Non-residents are required to pay tax on income obtained from sources of wealth located in Mexico when they do not have a permanent establishment (PE) in Mexico or when having a PE, on the income that is not attributable to that PE. Tax rates, method and time of tax payment, and exemptions are defined for each type of income obtained from sources of wealth located in Mexico.

Except for certain cases, the tax base is the total amount of gross income without any deduction.

**In general the income tax rate is 25%.**



## Sale of Property

Income from the sale of real property is considered to be of Mexican source when such property is located therein. **The following options are established for the payment of this tax:**

**First option—Apply a 25% withholding tax rate** to the total amount of the sales price and considering this tax payment as final. The purchaser must withhold the tax if he or she is a resident of Mexico or a resident abroad with a PE in Mexico. Otherwise, the vendor must pay the tax no later than 15 business days after the income is obtained by filing a tax return.

**Second option—Apply a rate of 28% in 2007** going forward on the excess of the revenue obtained over the authorized deductions to resident individuals who sell real property. Such deductions must include the inflationary adjustment to the acquisition cost but must not include losses incurred on the sale of such property, shares, or partnership interest. For this purpose, the person residing abroad must have a legal representative in Mexico. When the sale is duly notarized, it is not necessary to have a legal representative.

## Payments to Preferential Tax Regimes—Withholding Tax Rates

**In the case of payments for commissions, brokerage, agency fees,** among others, made by a Mexican resident or Mexican PE to foreign residents of a tax haven or payments to preferential tax regimes, a **40% withholding tax automatically applies** on the gross amount of such payments without any deduction.

## Legal Representatives

Legal representatives of non-residents must be residents of Mexico, and must keep all the documentation supporting tax payments made on behalf of the non-resident for at least **five years** following the date in which the tax return was filed.



## Value-added Tax (*Impuesto al valor agregado*)

VAT is levied on the value added to **goods and services at each stage of the production and distribution process** and is paid once by the final consumer on the total value added at each level.

**The general VAT rate is 15%.** However, the following special rates apply:

**Zero%** generally for sales of **patented medicines and food products**. Importing such products is not subject to tax. This rate also applies to exports.

**10%** when the operations for which the tax is due are carried out **within the border zone**, except for transactions involving real estate.

Since 2002, VAT is paid on a cash flow basis. Certain exceptions are established. In the case of sales, the rendering of services, or the granting of temporary use or enjoyment of goods and the importation of intangible goods, **the tax is payable at the time when the price is actually collected**. In addition, when tax withholding is required, it should be made at the time of payment. The tax base is the gross income and no credits are allowed against the withholding.

## Determination of Creditable VAT

The VAT transferred to taxpayers and VAT paid on imports related to expenses for the acquisition of goods, services or temporary use or enjoyment of goods, used exclusively for performing taxable activities, which are deductible for income tax purposes, may be credited. Tax shall not be creditable when these expenses are used exclusively for performing exempt activities and activities that are not subject to VAT.

## Determination of the Tax

Tax is determined monthly and considered as final payment. Should a credit balance be obtained in any month, the refund of this can be requested in full or credited in subsequent months. In addition, the creditable taxes must be supported by **invoices complying with tax requirements** showing the amount of taxes passed on.

There are important exceptions for which **no VAT is payable**. The most significant of these are **land, construction projects destined for housing**; books and newspapers, as well as certain other rights; used personal property, except that sold by businesses; partners' interests and credit titles; and local and foreign currencies and pieces of gold or silver, including troy ounces.

No tax is payable for the temporary use or enjoyment of real estate destined for housing or farms used for agricultural purposes or cattle raising.

## Special Tax on Certain Products and Services

In accordance with the Special Tax on Production and Services Law, entities or individuals carrying out **the following activities are liable to pay the tax:**

Distributors of alcoholic beverages, beer, tobacco, gasoline, diesel fuel, soft drinks and syrups or concentrates for preparing soft beverages.

Rendering of services such as commissions, mediation, agency, representation, consignment or distribution derived from the distribution of the products mentioned above.

# NEW TAXES



## Flat Rate Business Tax Law (IETU)

### **Starts January 2008**

Tax based on sales rather than profits, will start at 16.5% next year, rising to its maximum rate of 17.5% in 2010.

The flat tax will be 16.5% next year,  
17% in 2009 and 17.5% in 2010

## New Tax on Cash Deposits

### **Starts July 2008**

- 1) 2% monthly tax on all accounts at financial entities.
- 2) Individual as well as commercial
- 3) Non-profits are excluded
- 4) Cash deposits of more than MXN \$25,000
- 5) Complementary to income tax

## STATE TAXES

### Real Estate Acquisition Tax

This is a local tax which substituted for the stamp tax and is imposed on transfers of real estate or similar operations by which property or rights thereto are transferred, including, donations for cause of death and contributions to an association or company, as well as conditional sales, promises to buy, assignment of rights or mergers and spin-offs of companies.

### Payroll

There is a 2% payroll tax.





**Thank you!**

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- **Tax Disputes**
- **Tax Planning**
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