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Accounting and Tax Structure in Mexico

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Mexican Tax Structure

- Corporate Income Tax (ISR), Flat Tax (IETU), Value Added Tax (VAT).
- Land Taxes.
- Import taxes and duties.
- Production and Service Special Tax.
- Other rights and contributions.
Tax Structure: Corporate Income Tax (ISR)

- Corporate Income tax rate in 1999, 35%. Now in 2009 is 28%, for 2010 will be 30%

- The tax is calculated on the Taxable Profit that differs from the Financial Profit.

- Special tax rates on depreciation and amortization of fixed assets.

- Monthly advanced payments (that will be credited against annual tax) are mandatory required.

- To determine the advanced payment a profit coefficient, using previous year results, is applied.
Tax Structure: Corporate Income Tax (ISR)

- Dividends paid that come from profits that paid ISR will not be subjected to additional deductions or withholdings. Special rules and restrictions apply.

- It is important to observe the formal and other requirements, to obtain the benefit of expenses deduction from taxable basis of ISR.

- Specific concepts are considered nondeductible expenses.
Tax Structure: Business Flat Tax (IETU)

• Starting in 2008 there is be a new tax, that “substitutes” the “old” Asset Tax.

• It will be a “Business Flat Tax”, known as IETU, calculated in cash flow basis.

• The “IETU” rate is for 2009 17% and is expected for 2010 a rate of 17.5%.
Tax Structure: Business Flat Tax (IETU)

- The determination of IETU will be as follows:

Accumulative Collections / Deposits
Less:
**Authorized Deductions / Payments**
Base of IETU
**Times Rate**
IETU Determined
Less:
**Tax Credits**
NET IETU to be paid
Tax Structure : Business Flat Tax (IETU)

- Aspects to consider:
  - Purchase of Land in Real State.
  - Salaries and benefits paid to employees.
  - Inventory and cost of sales.
  - Payments, in bank statement.
Tax Structure: Value Added Tax (VAT)

- The VAT is calculated on top of all products and services, between companies and to final users.

- Rates: 15%, 10%, 0% and exempted products and services.
- The general rate may change to 16% in 2010.

- Is a cash flow basis tax.

- Most imports of products are taxed at 15% VAT plus duties and other import taxes and required to be paid through the customer broker.
Accounting Considerations

- Very formal process. Importance of support in paper.

- Is required to elaborate financial statements in Spanish and according to Mexican Financial Information Standards NIF, (former General Accepted Accounting Principles, PCGA).

- Accounting registries and books of accounting in Spanish according to the Mexican laws.

- All records must be in *Mexican pesos*, special rules apply to valuate foreign currency and the recognition of gain and losses.
Accounting Considerations

- The accounting software has to be able to produce “accounting books”.

- The chart of accounts should include specific tax accounts, where tax concepts should be registered / controlled.

- Invoices are required to be printed with an authorized printer. Also the option of electronic invoices is possible.

- Specific rules for inventory valuation and cost of sales determination.
Accounting Considerations

- Internal controls.

- Time to keep accounting books: Five years.

- Other periods for corporate documents and tax returns.

- Valuation of foreign currencies: Specific rules to calculate gain or loss in exchange rate.
Other Considerations

- Tax Losses can be carried forward for 10 years.

- The fiscal year begins on January 1st and ends on December 31st of the same year.

- Mandatory tax opinion of an external accountant, in specific cases. The accountant must have an authorization of the government.

- Obligation to withhold tax in specific payments:
  - Salaries.
  - Professional fees and rents paid to individuals.
  - In payments to foreigners.
  - Others according to industry and activity to be performed in Mexico.
Other Considerations

• Obligation to carry out a Transfer Pricing Study in operations with related parties (entities with common shareholders).

• All of the corporate federal tax returns (monthly and annual) are filled (and paid) through the Internet.

• It is required to have a tax domicile / fiscal address.

• Determined products, like cigarettes and alcoholic beverages are subjected to the Production and Service Special Tax.
Tax Benefits / Incentives

• To better compete and be more attractive, several benefits and tax incentives have been established in the laws.

• Specific Rulings apply to be eligible for benefits and incentives.

• States governments according to their own strategic plans are entitled to give additional or special benefits in order to attract investment in their states and the creation of jobs.

• For example reductions in land tax, exemptions for payroll tax, etc.
Income Tax Benefits / Incentives

- For tax payers that fulfilled in time the payment of the monthly advance Corporate Income Tax.

- Will be eligible for a credit of 0.50% on the fiscal result of 2009.

- If the difference between provisional payments presented and according to Law does not exceed 5% and additional credit of 0.25% can be taken.

- The above applies for companies audited for tax purpose.

- Accelerated depreciation of specific type of fixed assets, only in certain cities / areas.
Import - Export Benefits / Incentives

- One of the goals is to encourage exportation, several benefits have been created.

**Incentives**

- Export most common programs:
  - (New) Manufacturing, Maquila and Service Export Industries (IMMEX) is the unification of the exportation programs known as “Maquila” and “Pitex” into IMMEX program, effective date of statute, November 13, 2006.
  - Certified companies.
  - Refund of customs duties paid on goods used to produce exports (Drawback).
  - Major export companies (Altex).
  - Foreign trade companies (Ecex).
  - Sector programs (Prosec).
  - Fiscal deposit.
  - Strategic fiscal premises.

- Nonpayment Value Added Tax in imports.

- Immediate return of balances in favor of Value Added Tax within 5 days.
Import - Export Benefits / Incentives

• **Benefits** of the IMMEX Program
  • Main concept: IMMEX companies are able to differ (or postpone) the import duty payment for NAFTA Merchandise to add a process and return to the US.
  • No VAT in importations of assets (machinery), for temporary use in Mexico.
  • No generation of Permanent Establishment for IMMEX Companies as follows;
  • The goods to be imported temporarily (raw materials, parts, components, fixed assets, etc), can be property of the IMMEX Companies or of a foreign resident.

• Income Tax in base to Safe Harbor
  • 6.5% over expenses.
  • 6.9% over assets.
Other Benefits / Incentives

- Special benefit on Research and Technology Development.
- 30% of refund on expenses and investments.
- Is required to be informed in the annual tax return.
- Other formal requirement apply.
Conclusions

• Mexico’s size and diversity are often under appreciated by U.S. exporters. It can be difficult to find a single distributor or agent to cover this vast market.

• The Mexican legal and tax system differs in many significant ways from the U.S. system. U.S. firms should consult with competent advisors.

• The banking system in Mexico has shown some signs of growth after years of stagnation, but interest rates remain relatively high.
Conclusions

• U.S. companies need to conduct thorough due diligence before entering into business with a Mexican firm.

• Mexican customs regulations, product standards and labor laws may entail pitfalls to unwary U.S. companies.

• Define a proper strategy to enter the market.

• Select a reliable costumes broker.

• Perform budgets of all the costs related to the initial investment and working capital for the initial period.