



## MÉXICO – 2009 BUSINESS ENVIRONMENT

**Currency:** Mexican Peso (MXN)

**Foreign exchange control:** None, and no restrictions are imposed on the import or export of capital. Repatriation payments can be made in any currency. Both residents and nonresidents can hold bank accounts in any currency in any part of the world; however, for some accounts located in Mexico but kept in a foreign currency, the currency must be the U.S. dollar.

**Accounting principles/financial statements:** Mexican GAAP (with increasing conformity to international standards). The financial statement must be prepared annually.

**Principal business entities:** Mexico has all the usual forms of business organisation, including the stock company (sociedad anónima—SA) and the limited-liability company (sociedad de responsabilidad limitada—SRL). Any of them can be of variable capital (CV).

### TAX ID NUMBER

**RFC** The federal registry of causes or federal registry of contributors, it is where this the physical data base of all the Moral Person and Person who have a negotiation or want to begin a business. It transacts becomes Secretariat of Property and Public Credit (Mexico).

**R.F.C.: "Registro Federal de Contribuyentes"**

- ✓ For the physical Person the R. F. C. is obtained from the following way:

ABCD 680504 XXX

the first two letters (AB) are the paternal last name plus the first vowel of the paternal last name.

The third digit (c) is the initial of the maternal last name.

The fourth digit (d) is the initial of the first name.

As far as the first two digits they are the year of birth (68).

The second digits are the month of birth (05 or May).

The third digits are the day of birth (04).

Therefore it was born the person the four of May of 1968.

The last digits (XXX) are known him like "homoclave", this designates the SAT to it, depending on some factors as they are:

If there are more people with the same full name.

If there are more people with the same name, last names and date of birth. (Well-known also like "homónimos")

If it needs some last name.

This homoclave designated the SAT to it, reviewing the request through official paper already designated.

- ✓ For the Moral Person the R. F. C. is obtained from the following way:

ABC 680504 XXX

the first three letters (ABC) sometimes are the initials of the company if it is arrived at the case or a combination of these letters.

As far as the first two digits they are the year of foundation of the company (68).

The second digits are the month of the creation of the company (05 or May).



## MÉXICO – 2009 BUSINESS ENVIRONMENT

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The third digits are the day of the creation of the company (04).

Therefore the company was created the four of May of 1968.

The last digits (XXX) are known like homoclave, this designates the SAT to it, depending on some factors that the SAT by means of numerical or alphanumeric systems makes.

This homoclave designated the SAT to it, reviewing the request through official paper already designated.

### Corporate taxation:

**Residence** – An entity is resident if it is managed and controlled in Mexico.

**Basis** – Residents are taxed on worldwide income; nonresidents are taxed on Mexican- source income. Foreign-source income derived by residents is subject to tax in the same way as Mexican-source income. Branches are taxed the same as subsidiaries.

**Taxable income** – Corporate tax is imposed on a company's profits, which consist of business/trading income, passive income and capital gains. Normal business expenses may be deducted in computing taxable income. Inflationary accounting for tax purposes is applicable to certain concepts of revenue and expenses.

**Taxation of dividends** – Dividends received by a Mexican resident company from another Mexican entity are exempt from corporate tax. Dividends received from a foreign company are subject to corporate tax in the period the dividends are payable, but a credit for underlying corporate and withholding tax is generally available for foreign tax paid. If dividends are not paid from the "CUFIN account" (i.e. already taxed profits), the payer is required to pay taxes (28% on a gross-up amount).

**Capital gains** – Mexican entities are not subject to

special tax treatment on capital gains.

**Losses** – A 10-year carryforward is allowed, subject to applicable inflation adjustments. The carryback of losses is not permitted.

**Rate** – A 28% rate is applicable to business profits in general.

**Surtax** – No

**Alternative minimum tax** – A Flat Tax (IETU) applies from 1 January 2008. The IETU taxes profits determined by reducing the major part of revenue with most expenses and costs (excluding interest earned or paid, royalties paid or received to or from related parties, and salaries (although a portion of salaries is subject to a tax credit)). The tax rate is 17% for 2009. IETU operates under a cash flow method.

**Foreign tax credit** – Foreign tax paid may be credited against Mexican tax on the same profits, but the credit is limited to the amount of Mexican tax payable on the foreign income.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Incentives include: accelerated depreciation for most investments in fixed assets (some regions are restricted, such as the metropolitan area of Mexico City, Guadalajara and Monterrey); an R&D incentive granting a 30% tax credit on the total costs related to an approved plan; and real estate investment provisions granting the deferral of income tax.

### Anti-avoidance rules:

**Transfer pricing** – Rules similar to the OECD Guidelines apply. APAs are possible.



## MÉXICO – 2009 BUSINESS ENVIRONMENT

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**Thin capitalisation** – Thin capitalisation rules apply with a 3:1 debt-to-equity safe harbour ratio for loans granted from abroad by related parties.

**Controlled foreign companies** – Mexico's CFC rules were reformed with effect from 1 January 2008 to focus on abusive transactions without burdening real business activities.

**Other** – A tax audit is mandatory for taxpayers with more than 300 employees, or gross income exceeding MXN 30.4 million, or assets exceeding MXN 60.9 million.

**Disclosure requirements** – External tax auditors have an obligation to disclose when a taxpayer has entered into a transaction that is not considered viable by the Mexican tax authorities.

### Administration and compliance:

**Tax year** – Calendar year.

**Consolidated returns** – Mexican groups may net their income tax results to the extent of the direct or indirect participation of the Mexican holding company. Authorisation must be requested no later than 15 August of the preceding year.

**Filing requirements** – Under the self-assessment regime, advance corporate tax is payable in 12 instalments. The annual tax return must be filed within the first 3 months of the following year (no extensions are available).

**Penalties** – Penalties apply for non-compliance.

**Rulings** – The tax authorities will issue rulings on the tax consequences of actual transactions.

### Withholding tax:

**Dividends** – Mexico does not impose withholding tax on dividends.

**Interest** – Interest paid to nonresidents is subject to

withholding tax at rates ranging from 4.9% (interest paid to a nonresident bank) to a general 28%, unless the rate is reduced under an applicable tax treaty.

**Royalties** – Royalties paid to nonresidents are subject to a withholding tax of 25% (patents and trademarks) or 28% (all other royalties and technical assistance), unless reduced under an applicable tax treaty.

**Branch remittance tax** – No

### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – Payroll taxes apply at the state level.

**Real property tax** – The municipal authorities levy "rates" on the ownership of real property. Rates are deductible in calculating corporation tax liability. See also "Transfer tax", below.

**Social security** – Employer contributions of social security and other related contributions (e.g. housing and retirement) are mandatory, with rates ranging from 15% to 25%, depending on the salary structure of the group of employees.

**Stamp duty** – No

**Transfer tax** – A rate between 2% and 3% applies to the transfer of real estate.

**Other** – While not a tax, mandatory profit sharing rules imply that an entity is obliged to actually distribute 10% of taxed profits among its employees no later than May of the year following that in which the profits were generated.

### Value added tax:

**Taxable transactions** – VAT is levied on the sale of



## MÉXICO – 2009 BUSINESS ENVIRONMENT

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goods, leasing and the provision of services, as well as on imports.

**Rates** – The general VAT rate is 15%, with a 10% rate applicable at the borders and other designated areas, and a 0% rate for food, medicine and certain other items.

**Registration** – All persons must be registered to be able to credit the VAT paid to vendors or suppliers or at the border. Nonresidents that make taxable supplies of goods or services in Mexico also must register.

**Filing and payment** – VAT filing is monthly, within the first 17 days of the following month.

**Source of tax law:** Income Tax, Value Added Tax, IETU Laws, Federal Tax Code

**Tax treaties:** Mexico has around 40 income tax treaties.

**Tax authorities:** *Servicio de Administración Tributaria* (SAT or Tax Administration Service)

**International organisations:** OECD, WTO.

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For further information about this issue, please contact: [info@crlacorp.com](mailto:info@crlacorp.com)

✦ CREDIT REPORT through the years:



1994



DESDE 1964

2004



2007

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