

RSM Mexico



DOING BUSSINES IN MEXICO



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1. BUSINESS ORGANIZATION

INTRODUCTION

Mexico allows three principal types of business entities:

- sole proprietorships,
- partnerships and
- corporations.
- In addition a foreign corporation may set up a branch plant or branch office.
- There is another type of association, such as joint venture (simple contract)

Entity selection is critical, as each form offers advantages and disadvantages relating to the assumption of legal liability, application of the tax laws and to comply with reporting, documenting, and legal requirements.

SOLE PROPRIETORSHIPS / PERSONA FÍSICA

- The simplest form of business organization is a “sole proprietorship”. The owner is a single individual and the business is usually carried out under the owner’s name.
- The proprietor (owner) assumes unlimited liability for all business activity. If the business fails, all of the owner’s assets, both business and personal, may be used to discharge the liabilities of the business; there are fewer regulations in relation to than any other entity.



PARTNERSHIP / SOCIEDAD CIVIL (S.C.)



- A partnership exists when two or more people join to operate a business, usually personal services (accountants, lawyers, doctors, etc.). Partners are jointly and individually liable for the debts of the partnership. Accordingly, each individual partner can be held liable for the debts and obligations established in the name of the business by the other partners.
- Each partner is also responsible for any wrongful act or omission committed by any partner during the ordinary course of the firm's businesses.
- Partnership is easy to start, and doesn't require a high investment amount. All partnerships must register with the appropriate federal agencies and comply with specific income tax law requirements.
- Any partner will receive proportional profits that will be treated as an individual income, and will be taxed as such. These distributed profits are not taxed again at the entity level.

LIMITED LIABILITY COMPANIES AND CORPORATIONS / S. DE R.L., S.A. DE C.V. Y SAPI DE C.V.

- A Corporation is a legal entity which is formed under a federal statute with a minimum of two shareholders. The decision to become a corporation depends on a number of factors including: business nature, desired capital structure, and reporting requirements. Corporations must comply with various licensing and filing requirements, and they must register according to the Mexican Business Corporations Act.
- Companies may choose to be either public or private, but both types issue stocks. Companies that are interested in “going public” are encouraged to review the Mexican Stock Market Exchange’s Regulations to be widely aware of the procedures to be followed.
- Companies are advised to have the services of a public notary whenever they decide to initiate a corporation. A qualified attorney provides knowledge of the liabilities that each option conveys as well as the rules and regulations applicable to every single one.
- (Note: The terms “Limited Liability Company” and “Corporation” are used interchangeably for purposes of the explanation).



LIMITED LIABILITY COMPANIES AND CORPORATIONS / S. DE R.L., S.A. DE C.V. Y SAPI DE C.V.

- The main advantages of establishing a corporation are:
 - Limited liability: Assets held outside the corporation by shareholders are not subject to any liability in the case of a business failure.
 - Continuity of life: The corporation is a legal entity by itself and may exist indefinitely regardless of changes in stockholders or owners.

LIMITED LIABILITY COMPANIES AND CORPORATIONS / S. DE R.L., S.A. DE C.V. Y SAPI DE C.V.

- The disadvantages include:
 - The cost of incorporation and legal fees are high.
 - More reporting requirements than any other type of entity.
 - More detailed record keeping requirements for tax and legal purposes.



JOINT VENTURE / ASOCIACIÓN EN PARTICIPACIÓN



- A Joint Venture is a contract between two or more parties to reach a single or several businesses purpose. Parties may be composed of individuals and/or corporations. The Associate “in charge” of the operation has unlimited liability for the results of the operation.
- While the others associates contribute with capital and/or services, which entitled them to share the Joint Venture’s profits, their liability is limited to the individual invested amount. As a simple contract, it is not required to be taken before a Public Notary nor to be registered at the Public Commerce Register Office.

SUMMARY OF REQUIREMENTS FOR A FOREIGN INVESTOR

Steps to establish an industrial, Commercial or Service Company	Requirements		Person responsible for carrying out the paperwork	Registration or Authorization Office
I. Legal Incorporation	1)	Incorporation Papers	Public Notary	State Government
	2)	Immigration Permits (when needed)	Public Notary	State Department
	3)	Company Name Permit	Public Notary	State Department
	4)	Tax Registration	Certified Public Accountant	Tax Administration Services Office (SAT)

SUMMARY OF REQUIREMENTS FOR A FOREIGN INVESTOR

II. General requisites for operating the business	1)	Employer Registration	Certified Public Accountant	Social Security
			Certified Public Accountant	Worker's Housing Found
	2)	Employee Registration	Certified Public Accountant	Social Security
	3)	Worker Retirement Registration	Human Resources Coordinator	Any Finance Institution
	4)	Registration in the corresponding Chamber	Company Representative	Corresponding Chamber
	5)	Municipal Working Permit	Company Representative	Municipal Public Work
	6)	Federal Environment Office's Permit	Company Representative	Environment Office
	7)	Health Department's Permit	Company Representative	Ministry of Health
	8)	State Fiscal Registration	Certified Public Accountant	State Fiscal Office
	9)	Electrical Installations Permit	Company Representative	Federal Electric Company
	10)	Foreign Investment Registration	Notary Public	Ministry of Commerce
	11)	Import / Export Registration (whenever)	Certified Public Accountant	Ministry of Commerce
	12)	Import / Export documentation (whenever)	Customs Agent	Customs Offices

SUMMARY OF REQUIREMENTS FOR A FOREIGN INVESTOR

III. Other Special Requirements	1)	Gas Facilities Permit	Gas & Electrical Engineer	Ministry of Commerce
	2)	Official Policies Permit	Foreign Commerce Consultant	Ministry of Commerce
	3)	Patents and Trade Mark Registry	Foreign Commerce Consultant	Ministry of Commerce
	4)	Import of Forestry Products	Foreign Commerce Consultant	Ministry of Agriculture
	5)	Measuring Apparatus Permit	Gas & Electrical Engineer	Ministry of Commerce
IV. Requirements for Maquiladoras	1)	Maquila Program Permit	Foreign Commerce Consultant	Ministry of Commerce
	2)	Manufacturing Contract	Notary Public and CPA	Ministry of Commerce
	3)	Collective Labor Contract (whenever)	Labor Lawyer and CPA	Labor Bureau
	4)	Statistical Reports	CPA	INEGI
	5)	Formation and Registry of Employer worker commissions	Labor Lawyer	Labor Bureau
	6)	Import/Exportion documentation	Customs Agent	Customs Office

DIFFERENT KINDS OF TAXES

- Taxation in Mexico is very complex. This complexity results from ever-changing taxation rules and various federal taxes; most tax laws are legislated by the federal government
- Business activities conducted in Mexico are subject to several types of taxation, including individual, corporate and payroll taxes:
 - Income tax (ISR).
 - Value added tax (IVA).
 - Social security taxes (IMSS, SAR, INFONAVIT)
 - State payroll tax (ISN)
 - State lodging tax (ISH)

OTHER LABOR OBLIGATIONS

EMPLOYEE PROFIT SHARING

- All businesses in Mexico with employees are required to distribute a portion of their annual profits among all of their employees, except directors and the general manager.
- Employees are entitled to receive as their annual profit share a 10% of the taxable profit.

INDEMNITY PAYMENT

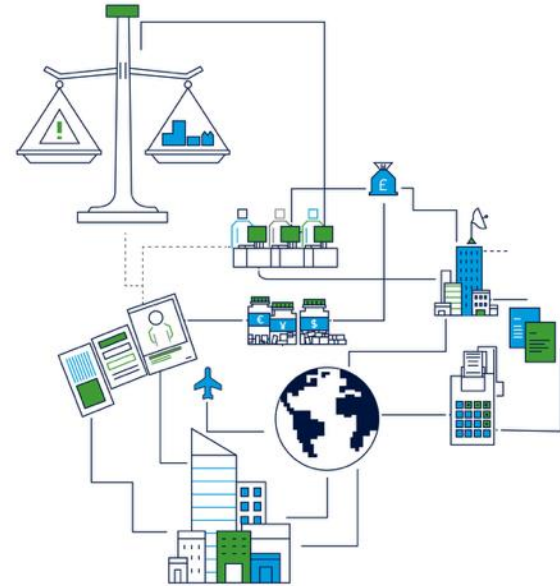
- Indemnity payments occur when a worker under a permanent contract is dismissed, not complying with Labor Law's (LFT) article 51, such worker will be entitled to receive an indemnity payment; so, employer must pay a high amount of money.



2. INCOME TAX

CORPORATE INCOME TAX

- Most of the company's income is considered accruable for income tax purposes when any of the following situations occur:
 - When an invoice is issued.
 - When goods are delivered or services are rendered to a buyer.
 - When a total or a partial money amount from a transaction is collected or payable, including advance payments.
- A Mexican company will be subject to the income tax during its operation. The tax rate for a corporation's income is 30%.
- Income tax must be paid annually, but taxpayer must file advances payment against annually income tax, according to a profit coefficient calculated with numbers based of the past year.
- The procedure to calculate such profits is by deducting certain allowed expenses from the total accruable gross income.



DEDUCTIONS



- Allowed deductions are basically, every cost and/or expense considered strictly necessary to carry out every business in a company.
- According to the article 25 of the Income Tax Law (LISR), authorized deductions are:
 - Returns and discounts
 - Cost of sales
 - Net expenses
 - Property investments as well as fixed and intangible assets.
 - Uncollectable debts and unforeseen circumstantial losses
 - Social security fees
 - Interests paid
 - Inflation adjustments
 - Advance payments for shareholders of partnerships
 - Pension and early retirement funds

YEAR END INCOME TAX (ISR) CALCULATION FOR CORPORATION

■ Taxable Incomes:

- (-) Deductions
- (=) Taxable Profits before PTU payment
- (-) PTU (Employee Profit sharing) paid during the fiscal year
- (=) Taxable Profits
- (-) Losses from previous tax years
- (=) **Taxable Result**
- (x) **30% Income Tax rate**
- (=) **Income Tax**
- (-) Income Tax monthly payments
- (-) Withholding taxes
- (=) Income tax to be paid or favor.

- Available Period to make the annual tax payment of the ended year: During the three first months of the next fiscal year (March).



INDIVIDUAL INCOME TAX

Type of Income

Chapter I	Subordinate Personal Service (Article 94 - Article 99)
Chapter II	From Income from Business and Professional Activities (Section I - Section IV) Section I - From Individuals with Business and Professional Activities (Article 100 - Article 110) Section II - Tax Incorporation Regime (Article 111 - Article 113) Section III - From Income from the Sale of Goods or the Provision of services Through the Internet, via Technological Platforms, Software, applications, and Similar (Article 113 A -Article 113 D) Section IV - From the Simplified Trust Regime (Article 113 E -Article 113 J)
Chapter III	From Income from Leasing and Generally from Granting Temporary Use or Enjoyment of Real Estate (Article 114 - Article 118)
Chapter IV	From Income from the Sale of Goods (Section I - Section II) Section I - General Regime (Article 119 - Article 128) Section II - From the Sale of Shares on Stock Exchanges (Article 129)
Chapter V	From Income from the Acquisition of Goods (Article 130 - Article 132)
Chapter VI	From Income from Interest (Article 133 - Article 136)
Chapter VII	From Income from Winning Prizes (Article 137 - Article 139)
Chapter VIII	From Income from Dividends and Generally from Distributed Profits by Legal Entities (Article 140)
Chapter IX	From Other Income Obtained by Individuals (Article 141 - Article 146)

INDIVIDUAL INCOME TAX

Calculation

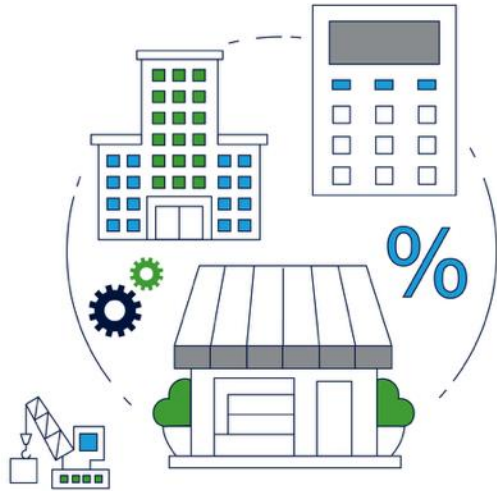
Each chapter of taxation for individuals has special characteristics for determining the provisional and annual income tax; however, they all rely on the rate from Article 152 of the income tax law to perform the annual calculation.

This is the rate mentioned:

Lower Limit	Upper Limit	Fixed Fee	% to apply over the surplus of the lower limit
\$	\$	\$	%
0.01	8,952.49	0	1.92%
8,952.50	75,984.55	171.88	6.40%
75,984.56	133,536.07	4,461.94	10.88%
133,536.08	155,229.80	10,723.55	16.00%
155,229.81	185,852.57	14,194.54	17.92%
185,852.58	374,837.88	19,682.13	21.36%
374,837.89	590,795.99	60,049.40	23.52%
590,796.00	1,127,926.84	110,842.74	30.00%
1,127,926.85	1,503,902.46	271,981.99	32.00%
1,503,902.47	4,511,707.37	392,294.17	31.00%
4,511,707.38	From now on	1,414,947.85	35.00%

3. EMPLOYEE PROFIT SHARING

EMPLOYEE PROFIT SHARING



- **All businesses in Mexico with employees**, whether organized as sole proprietorships, partnerships or corporations, **are required to distribute a portion of their annual profits among all of their employees**, except directors and the general manager. This employee's right doesn't imply that employees have the right to intervene in the business management.
- Employees are entitled to receive as their **annual profit share a 10% of the taxable income**—after some adjustments-determined in accordance with the Income Tax Law (***Taxable Profits before PTU payment***)

EXAMPLE OF CALCULATION OF THE EMPLOYEE PROFIT SHARING

Income Tax Law (LISR) Article 9		
Taxable Income for Income Tax	10,000,000.00	
less: Non deductible Benefits for employee (art. 28, fracción XXX LISR)	(100,000.00)	
Taxable Income for Employee Profit Sharing		9,900,000.00
Less: Deductions for Income Tax	5,900,000.00	
Deductions for Employee Profit Sharing		5,900,000.00
Taxable Employee Profit Sharing		4,000,000.00
(X) %		10%
Employee Profit Sharing LISR		400,000.00
Employee Profit Sharing Labor Law		
50 % based on days worked	200,000.00	
50 % based on salary earned	200,000.00	

EMPLOYEE PROFIT SHARING LIMIT

The amount of the employee profit sharing will have a **maximum limit of three months of the employee's salary or the average of the participation received in the last three years**; the amount that is **most favorable** to the employee will be used.



EXAMPLE OF CALCULATION OF THE EMPLOYEE PROFIT SHARING LIMIT

Average Employee Profit Sharing (PTU)					
Last Tree Years					
Employee	PTU 2020	PTU 2019	PTU 2018	Total Amount	PTU Average
Employee 1	63,000.00	38,500.00	-	101,500.00	33,833.33
Employee 2	68,000.00	42,000.00	90,000.00	200,000.00	66,666.67
Employee 3	-	-	-	-	-
Employee 4	60,000.00	35,000.00	80,000.00	175,000.00	58,333.33

Comparison Income Tax Law Vs. Labor Law							
Employee	Monthly Salary	3 Monthly Salary	PTU Average	More favorable	More Favorable	PTU According to LISR	PTU to Pay
Employee 1	20,500.00	61,500.00	33,833.33	61,500.00	3 months	85,000.00	61,500.00
Employee 2	20,500.00	61,500.00	66,666.67	66,666.67	average	65,000.00	65,000.00
Employee 3	35,000.00	105,000.00	-	105,000.00	3 months	160,000.00	105,000.00
Employee 4	18,000.00	54,000.00	58,333.33	58,333.00	average	90,000.00	58,333.00
						400,000.00	289,833.00

EMPLOYEE PROFIT SHARING

- Some companies are excepted of this Employee Profit Sharing payments:
 - Newly created companies during their first year of operation.
 - Newly created companies, dedicated to the fabrication of new products. During their first two years of operation.
 - Extractive industries of new creation. During the exploration period.
 - Non-profit organizations.
- **The employee's profit share must be paid within the first five months of the new fiscal year (May for Corporations).** The **employer is required to provide the employees a copy of the company's documents showing the data used to calculate** such payments; so that they may exercise their right to object their employer's employee profit sharing.



EMPLOYEE PROFIT SHARING

- Any objection made by employees, should be communicated to the Work Authorities who will decide on the issue. Such decision may not be contested by the employees or the company. The labor law allows as valid any strike caused by a company failure to comply with profit sharing regulations.
- Profit sharing **has to be distributed among its employees in two equal parts. The first one is distributed in accordance with the number of days worked during the year, and the second part in proportion to the salaries earned by each employee.**
- The highest payment of a white collar, or supervisory employee, can only be an additional 20% of the highest salary of all blue-collar employees.

4. DIVIDENDS FROM CORPORATIONS

DIVIDENDS

- Mexico has a rather unique tax treatment for dividends, through which the distributing Company and the recipient are have two separate regimes
- A Mexican Company that distributes dividends is generally not subject to Mexican income tax to the extent the amount of the dividend does not exceed the “Net After Tax Accumulated Earnings” Account (“CUFIN”) for its acronyms in Spanish.
- In general terms, the CUFIN represents the accumulated earnings (determined under Mexican tax principles) upon which the distributing Company has already paid Mexican income tax over time, and must be updated at the end of each tax year



DIVIDENDS

- If a Mexican Company pays a dividend up to the balance of the CUFIN as of the date of the payment, said Company will not incur in any additional Mexican Income tax on that dividend. However, the Mexican Company will be subject to Mexican income tax on any dividend in excess of the CUFIN. At present Mexican tax rates, the statutory rate on the excess dividend is a flat 30%. The excess dividend has to be grossed up by a factor of 1.4286, this resulting in an effective tax rate of 42.86% on the amount of the excess dividend. This tax, again, is imposed on the distributing company and not the recipient of the dividend



DIVIDENDS

- The 2014 tax reform act imposed a 10% tax on the recipient of a dividend paid by a Mexican company if that dividend is based on the retained earnings obtained in years beginning on or after January 1, 2014, if the recipient is a Mexican or foreign natural person, or a foreign legal entity.
- Under the different Tax Treaties that Mexico has with other countries, in certain cases the 10% withholding rate can be reduced to 5% and even to 0%.

Income Tax Cost in Mexico		
2014 onwards		
Concepto	Clave	Importe
Taxable Result	A	10,000,000
Income Tax Rate		30%
Corporate Income Tax	B	3,000,000
CUFIN	A-B	7,000,000
Income Tax Withholding Rate		10%
Income Tax Withholding	C	700,000
Taxable Result	A	10,000,000
Income Tax Payment	B+C	3,700,000
Income Tax Effective Rate		37%

DIVIDENDS

- For example, a Mexican company that wishes to distribute a dividend on August 2025 must look at the retained earnings reported in its balance sheet as of December 31, 2024, and must use the CUFIN balance calculated as of that same date.
- The following are the main examples of transactions that under Mexican tax law can be re-characterized as dividends for Mexican income tax purposes:
 - Interest on certain loans made by a foreign parent company.
 - Certain permanent, no deductible expenses that benefit shareholders or owners of the Mexican company (e.g. – Shareholder personal expenses paid by the Mexican company).
 - Payments to shareholders that exceed the values that would have been used by or between unrelated parties in a comparable transaction.



5. VALUE ADDED TAX

SUBJECTS AND OBJECTS

- The value-added tax is part of the Federal Tax Structure of Mexico and must be paid by individual or juridical persons who perform in National Territory the following activities:
 - Sales of goods.
 - Independent rendered services.
 - Granting temporary use or benefit of real estate properties.
 - Importations.



VAT RATE AND PAYMENT

Tax Payment

- Taxpayers will pay the difference between the caused tax and creditable tax.

Tax Rate

- The general rate of value added taxation in Mexico is 16%.

Transfer

- Taxpayers will transfer the tax in an expressed and separately way to the person who acquired the goods or services.



VAT WITHHOLDING

Individual or juridical persons obliged to withhold VAT:

- Legal Persons who:
 - Receive independent personal services or temporary use or enjoy properties granted by individual persons.
 - Acquire waste to be used as a raw material for industrial activity or for further sale.
 - Receive land transportation services by individual or legal persons.
 - Receive services rendered by commission agents who are individuals.
 - The Acquisition or temporary use or benefit of tangible or intangible property by individual or legal persons without permanent establishment in the country.
- Withholdings will be made over the effectively paid amount in the moment that it is paid and it will be reported through a statement to be delivered at the moment of the Monthly Valued Added Tax Payment to be made no later than the 17th of the following month.



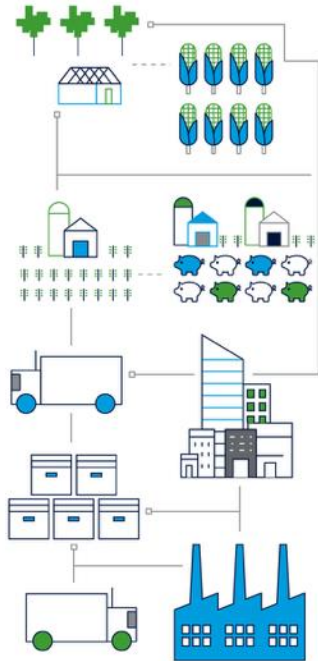
CREDITING PROCESS

Customer	
Sale	\$100.00
Caused VAT (A)	\$16.00
Total	\$116.00
Supplier	
Purchase	\$50.00
Creditable VAT (B)	\$8.00
Total	\$58.00
Tax to be paid SAT (A-B)	\$8.00

Calculation

- The tax will be calculated each month, in fact it is considered a definitive monthly tax.
- The tax payment will be made when filing a tax statement, no later than the 17th of the following month.
- The amount to pay will be the difference between payable tax and credited tax.
- When the payment statement results with balance in favor, the taxpayer will be able to use it as a credit against charged taxes of the following months until it comes to an end, or the taxpayer requests a refund.

0% TAX RATE



- The 0% Value Added Tax rate will be applied to the following sales:
 - Animals and Vegetables that haven't been industrialized, except for rubber and pets.
 - Patented Medications.
 - Ice and no gaseous water bottled in containers bigger than 10 liters.
 - Products used by the food industry, with some exceptions such as: Beverages, different than milk, juices, nectars and, fruits or vegetables and concentrated syrups to prepare sodas that are been sold in open containers, as well as concentrates, syrups, powders, or flavor essences to produce soda, caviar, smoked salmon, eel, flavoring substances and chewing gums and processing meal for pets.
 - Products destined to agriculture such as: fertilizers, pesticides and herbicides, tractors and its tires.

- Also with a 0% VAT, every independently rendered services, such as:
 - Services rendered to farmers and stockbreeders
 - Milling services
 - Milk Pasteurization
 - Cattle and Fowl sacrifice
 - Re-insurance
 - Domestic water supply

- Value Added Tax for the exportation of goods or services will also be 0%.

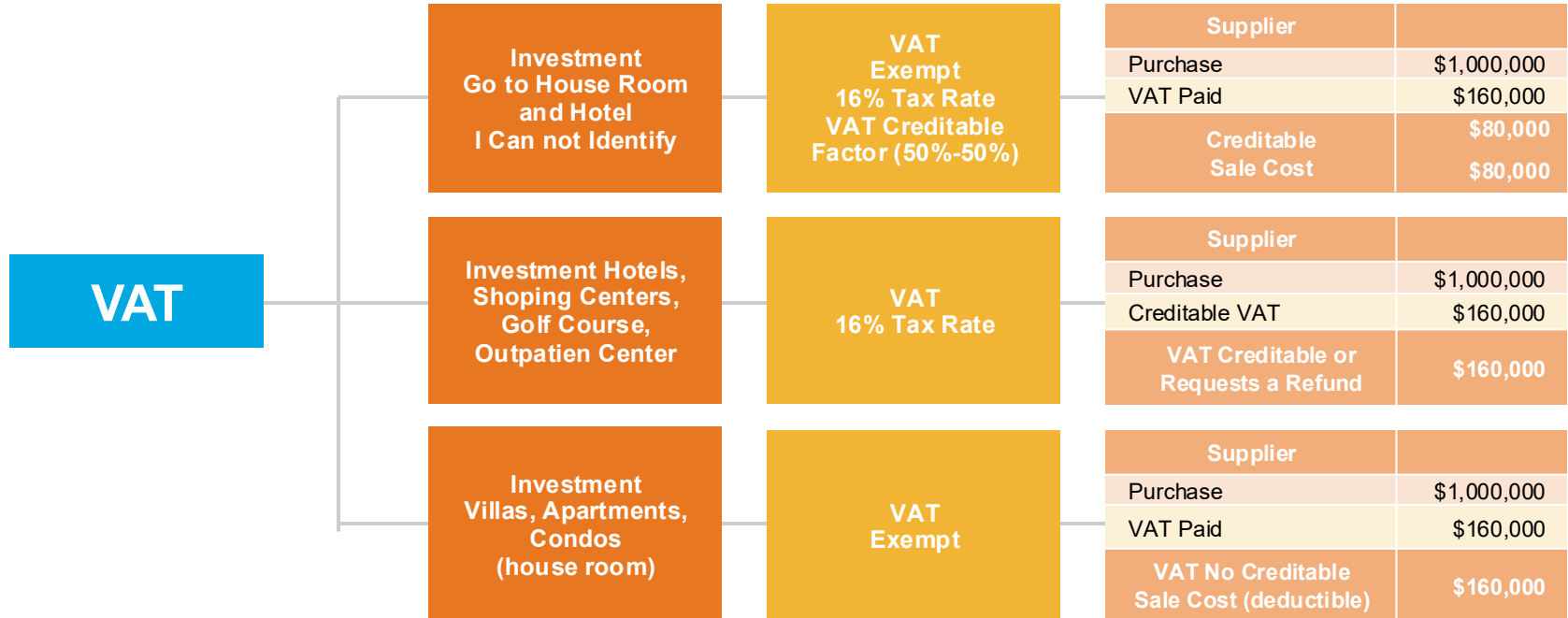
EXEMPTIONS

■ Taxpayers will not pay Value Added Tax for sales of the following items:

- Land
- Household buildings
- Books and magazines
- Secondhand personal belongings, different to real state, except when they are sold by companies
- Lotteries and raffles
- Coins
- Social parts and credit titles
- Gold ingot bars with some exemptions
- Temporary importations or similar regime.



VAT 16% Tax Rate Vs. VAT Exempt

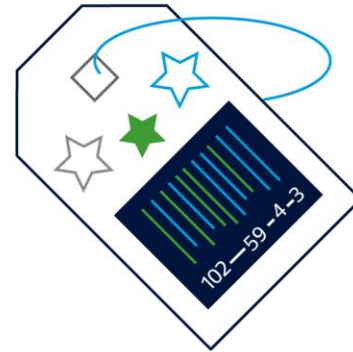


6. OTHER TAX COMPLIANCE

ANEXXS

6.1. TRANSFER PRICING – FAIR MARKET VALUE
TRANSACTIONS (LOOK AT ANNEX 1).

6.2. MAQUILADORAS (LOOK AT ANNEX 2).



6.3. THIN CAPITALIZATION

A common practice in companies that make up the same group is loans between transnational intercompany, because it allows them to obtain resources to finance their projects, without complying with the formalities required by a foreign entity, for example, a bank.

However, when the amounts borrowed are high, it is possible that the deductibility of interest is limited or nullified in terms of article 28 section XXVII of the Income Tax Law

This occurs when the amount of the debts of the taxpayer residing in national territory exceeds three times its shareholders' equity, which is known as thin capitalization, and therefore the interest generated by the debt of the foreign related party would be non-deductible for income tax effects.

The aim is to avoid the deduction of interest that unduly reduces the tax burden, by agreeing on prices different from those that would have been agreed with independent third parties.



6.4. DISCLOSURE OF AGGRESSIVE TAX PLANNING MECHANISMS



Action 12 of the project “Base Erosion Profit Shifting” (**BEPS**) **recommendations issued by the Organization for Economic Co-operation and Development (OECD) G20**, indicate “Require taxpayers to disclose their mechanisms of aggressive tax planning”, in the reform from December 9, 2019, to the Mexico **Federal Tax Code**, action is addressed and materialize in Mexican legislation, with the incorporation Title Six “Of the revelation of reportable schemes”, covering **articles 197 to 202**, which contain declaration standards mandatory information by tax advisors and taxpayers.

Therefore, the incorporation of the action contributes to strengthening one of the pillars basics of the general content of Action 12 provided with complete and relevant information on strategies tax planning techniques that allow quickly identifying the areas of risk that contribute to a more efficient use of human resources and materials from the Tax Administration Service (SAT) as well as an early reaction against per-judgments committed against the public treasury.

6.5. CONTROLLING BENEFICIARY

Its origin comes from two of the forty recommendations of the Financial Action Task Force (“[FATF](#)”), specifically recommendation 24 and 25. **Mexico Federal Tax Code, articles 32 B Ter, Quarter, Quinquies.**

Companies must identify and keep accurate, complete, and updated information on their controlling beneficiaries.

The controlling beneficiary can be an individual or group of individuals that has the control or the benefits of a company.

In the case of trusts, it will be the fiduciary, trustors, and trustees, or ultimately, who has the control.

In addition, it must be identified if the beneficiary is indirectly through a chain of ownership (by other legal entities) or control (by legal entities or legal figures).



6.6. ELECTRONIC INVOICING AND ELECTRONIC ACCOUNTING RECORDS

Taxpayers must maintain accounting records through electronic systems that can create XML format files, which include the following:

Chart of accounts used during the period. The chart of accounts must include a field to include account groupings, as defined by the tax authorities in Annex 24 of the Temporary Regulations.

Trial balance, with initial balances, movement for the period and final balances for each of the accounts of the taxpayer, including assets, liabilities, equity, and results of operations (revenue, costs, and expenses). For final year-end balances, information on recorded tax adjustments should be included.

The tax accounts should be identified along with, when applicable, the different rates, quotas, and activities for which no tax is due, as well as transferred taxes and creditable taxes. Guidance for these accounts is provided in Annex 24 of the Temporary Regulations.

Information related to journal entries in the accounting records. This should include details for each transaction, such as account, subaccount, sub-ledger, and information related to electronic invoices, as well as identifies the different tax rates, quotas, and activities for which no tax is due.



6.7. ANTI-AVOIDANCE CLAUSE



Article 5a.-A Federal Tax Code. Legal acts that lack a business purpose and generate a direct or indirect tax benefit shall have the tax effects corresponding to those that would have been realized to obtain the reasonably expected economic benefit by the taxpayer.

Fewer acts

The tax authority may presume, unless proven otherwise, that there is no business purpose when the reasonably expected quantifiable economic benefit is less than the tax benefit. Additionally, the tax authority may presume, unless proven otherwise, that a series of legal acts lack a business purpose when the reasonably expected economic benefit could be achieved through fewer legal acts and the tax effect of these would have been more burdensome.

Tax benefits; concept

Tax benefits are considered any reduction, elimination, or temporary deferral of a contribution. This includes those achieved through deductions, exemptions, non-subjecting to tax, non-recognition of a taxable gain or income, adjustments or lack of adjustments to the taxable base, crediting of contributions, recharacterization of a payment or activity, a change of tax regime, among others.

6.8. VULNERABLE ACTIVITIES AND REPORTS FOR MONEY LAUNDERING PREVENTION

Article 17 of the PIORPI Law

Section I



Games and
Raffles

Section II



Service, Credit, Prepaid
Cards, Coupons,
Refunds, and Rewards

Section III



Traveler's
Check

Section IV



Loan
Agreement

Section V



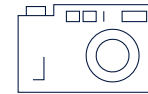
Development
and sale of
Real Estate

Section VI



Metals and
Jewelry

Section VII



Works of
Art

Section VIII



Vehicles

Section IX



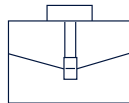
Armoring

Section X



Transfer or
Custody of
Securities

Section XI



Professional
Services

Section XII



Public Notary

Section XIII



Received
Donations

Section XIV



Foreign Trade
through an agent
or customs power
of attorney

Section XV



Real Estate
Rentals

Section XVI



Exchange of
Virtual Assets

OBLIGATIONS FOR MAKING VULNERABLE ACTIVITIES

REGISTRATION	IDENTIFICATION	NOTICES	OTHER
<p>Registration and onboarding process in the AML Portal.</p> <p>Registered with the Tax ID (RFC).</p> <p>Having FIEL.</p>	<p>To the Client or User when the identification threshold is exceeded and/or when the transaction is carried out.</p> <p>Collect data (Customer Identification Form)</p> <p>Copy of documentation (Customer Identification File)</p> <p>Verify the existence of the Beneficial Owner</p>	<p>Submit notices when the threshold is exceeded. Report:</p> <ul style="list-style-type: none"> - General data of the entity performing the vulnerable activity. - General data of the client or user, or, where applicable, of the Beneficial Owner, along with information about their activity. - Description of the vulnerable activity. <p>Zero notices in the month when no act or operation subject to notification is carried out.</p>	<p>Safeguard information and documentation related to client and user identification and supporting documentation for the vulnerable activity for 5 years.</p> <p>Provide facilities to facilitate verification visits.</p> <p>Have a MANUAL.</p>

6.9. CPA CERTIFICATION

Pursuant to **article 32-A Federal Tax Code** individuals and legal entities may or will audit its financial statements:

Optional

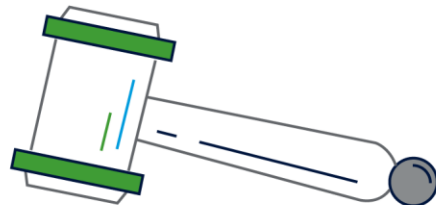
Those (Individual and legal entities) that in the immediately **preceding fiscal year obtained a taxable income in excess of MXN\$157,785,270 (1)**, those whose assets as calculated in accordance with tax administration services rules **have a value in excess of MXN\$124,650,380 (1)**, or those who should have been provided services by at least **three hundred of their employees in each one of the months** of the immediately preceding fiscal year.

Mandatory

Those (legal entities) that in the immediately **preceding fiscal year obtained taxable income equal or in excess of MXN\$1,940,178,120 (1)**.

(1) Amount updated to January 2025, they should be updated every year

As well as those (legal entities) that in the immediately preceding fiscal year have **shares placed among the general investing public, in the stock market.**



6.10. INFORMATION ON TAX SITUATION

Pursuant to [article 32-H Federal Tax Code](#), Taxpayers listed below must submit to the Tax Administration Service (SAT).

Large taxpayers

I. Legal Entities who file in their last filed fiscal year, reported taxable income equal to or greater than an amount equivalent to \$1,062,919,860.00, (1) as well as those who, at the end of the previous fiscal year, have shares publicly traded on the stock exchange and are not covered by any other case outlined in this article.

Group of Companies Regime

II. Commercial companies that belong to the optional fiscal regime for groups

State-Owned Entities

III. State-owned entities of the federal public administration.

Foreign Residents with a Permanent Establishment

IV. Foreign legal entities with a permanent establishment in the country

Operations with Foreign Residents

V. Any legal entity resident in Mexico regarding operations carried out with foreign residents.

Related Parties

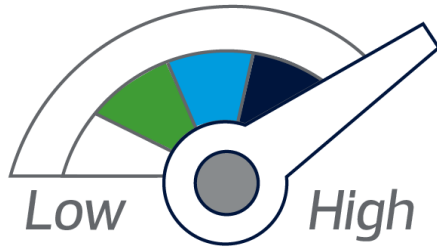
VI. Taxpayers who are related parties to the subjects established in the second paragraph of Article 32-A of this Code.

(1) Amount updated to January 2025, they should be updated every year

7. SOCIAL SECURITY AND HOUSING FUND TAXES

INTRODUCTION TO SBC

- Before explaining the way to calculate the social security taxes, it's very important to **know what SBC is (quotation base salary). This SBC is integrated by:**



Daily salary	500.00
* Vacation Prime $((500 \times 12 \times 25\%) / 365)$	4.11
Annual gratification $((500 \times 15) / 365)$	20.55
Commissions (2,000 bimonthly/60)	33.33
SBC	557.99

* Vacation for the first year of the worker

SOCIAL SECURITY AND INDIVIDUAL ACCOUNT PERCENTAGE

Kind	Calculation Base		Percentage		Total	Percentage		Total
	Employer	Worker	Employer	Worker	Percentage	Employer	Worker	Percentage
Social Security								
Sickness and Maternity								
Pension Reserve Quota	SBC	SBC	1.050%	0.375%	1.425%	73.68%	26.32%	100.00%
Benefit In Goods								
Fixed Quota	UMA	-	20.400%	0.000%	20.400%	100.00%	0.00%	100.00%
Proportional Quota	SBC EXC. S/3 UMA	SBC EXC. S/3 UMA	1.100%	0.400%	1.500%	73.33%	26.67%	100.00%
Benefits In Cash	SBC	SBC	0.700%	0.250%	0.950%	73.68%	26.32%	100.00%
% S y M			23.250%	1.025%	24.275%	95.78%	4.22%	100.00%
Life and Handicapped	SBC	SBC	1.750%	0.625%	2.375%	73.68%	26.32%	100.00%
Total (S and M) and (L and H)			25.000%	1.650%	26.650%	93.81%	6.19%	100.00%
Job Risk	SBC	SBC	0.500000%	0.000%	0.500000%	100.00%	0.00%	100.00%
Day Care Center and Social Benefits	SBC	SBC	1.000%	0.000%	1.000%	100.00%	0.00%	100.00%
Total Social Security			26.500%	1.650%	28.150%	94.14%	5.86%	100.00%
Minimum Salary=Unidad de Medida y Actualización (UMA) = \$ 89.62 UMA								

SOCIAL SECURITY AND INDIVIDUAL ACCOUNT PERCENTAGE

Kind	Calculation Base		Percentage		Total	Percentage		Total
	Employer	Worker	Employer*	Worker	Percentage	Employer	Worker	Percentage
Individual Account								
Old and Rest*	SBC	SBC	3.150%	1.125%	4.275%	73.68%	26.32%	100.00%
Retirement	SBC	SBC	2.000%	0.000%	2.000%	100.00%	0.000%	100.00%
Housing Found	SBC	SBC	5.000%	0.000%	5.000%	100.00%	0.000%	100.00%
Total Individual Count			10.150%	1.125%	11.275%	90.02%	9.98%	100.00%
Total Social Security and Individual Account			36.650000%	2.775000%	39.425000%			
* This % is increasing from 2023 to 2027 from		4.241%	to	11.875%				
		2023		2027				

CALCULATION OF SOCIAL SECURITY

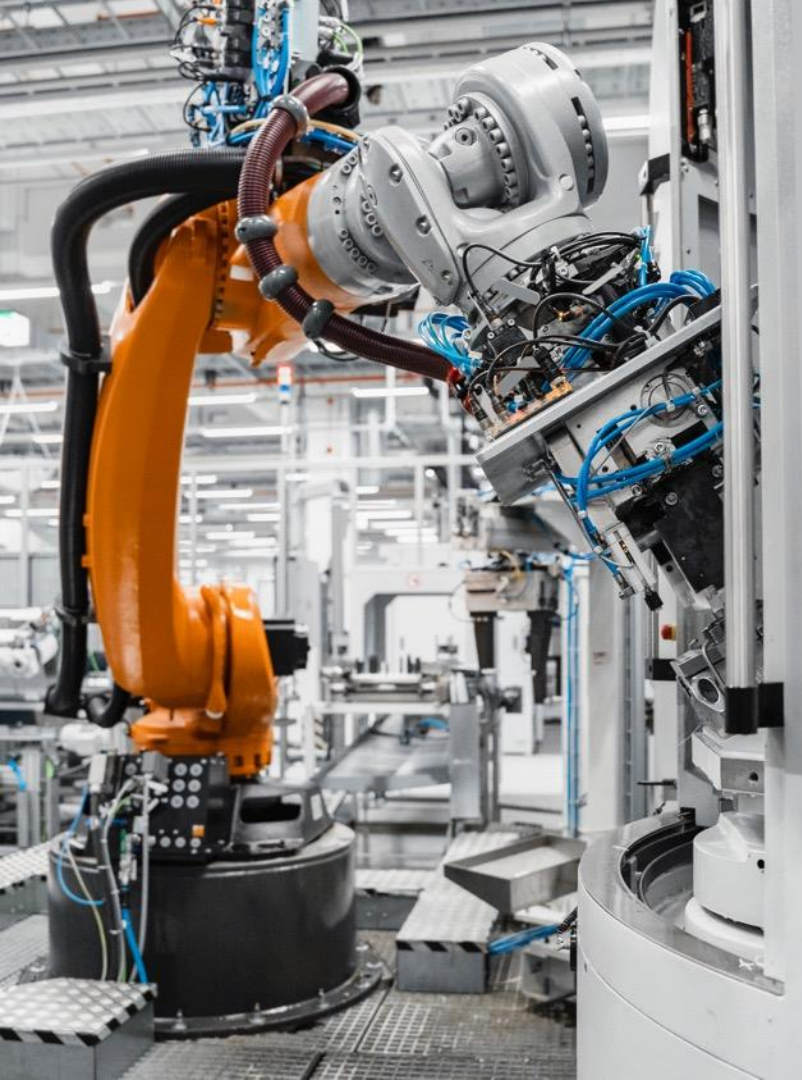
Seniority	Name of Employee	Daily Salary Dollars	Daily Salary Pesos	SBC	30	Montly Commission Dollars	Montly Tips M.N.	Montly Salary + Tips	Fixed Quota	Proportional Quota Employer	Proportional Quota Employee	Benefits in Cash Employer
1	Employee 1	\$50.00	\$1,000.00	1,715.98	30	1,000.00	20,000.00	50,000.00	588.87	471.00	171.30	360.36
1	Employee 2	\$50.00	\$1,000.00	1,715.98	30	1,000.00	20,000.00	50,000.00	588.87	471.00	171.30	360.36
1	Employee 3	\$50.00	\$1,000.00	1,715.98	30	1,000.00	20,000.00	50,000.00	588.87	471.00	171.30	360.36
1	Employee 4	\$50.00	\$1,000.00	1,715.98	30	1,000.00	20,000.00	50,000.00	588.87	471.00	171.30	360.36
					120	\$4,000.00	\$80,000.00	\$200,000.00	\$2,355.48	\$1,884.00	\$685.20	\$1,441.44

Benefits in Cash Employee	Pension Reserve Quota Employer	Pension Reserve Quota Employee	Job Risk	Life and handicapped Employer	Life and handicapped Employee	Day care center and Social benefits	Retirement	Old and Rest Employer	Old and Rest Employee	Housing Fund	State Payroll Tax	Total Social Burden Employer	Total Social Burden Employee
128.70	540.53	193.05	257.40	900.89	321.75	514.79	1,029.59	3,304.98	579.14	2,573.97	900.00	11,442.38	1,393.94
128.70	540.53	193.05	257.40	900.89	321.75	514.79	1,029.59	3,304.98	579.14	2,573.97	900.00	11,442.38	1,393.94
128.70	540.53	193.05	257.40	900.89	321.75	514.79	1,029.59	3,304.98	579.14	2,573.97	900.00	11,442.38	1,393.94
128.70	540.53	193.05	257.40	900.89	321.75	514.79	1,029.59	3,304.98	579.14	2,573.97	900.00	11,442.38	1,393.94
\$514.80	\$2,162.12	\$772.20	\$1,029.60	\$3,603.56	\$1,287.00	\$2,059.16	\$4,118.36	\$13,219.92	\$2,316.56	\$10,295.88	\$3,600.00	\$45,769.52	\$5,575.76

8. STATE PAYROLL TAX

PAYROLL TAX

- The base to calculate this tax is the sum of all the perceptions paid on the payroll, decreased by some excepted perceptions and then multiply it by 2.4% and 3%, each state has different %.
- It must be paid monthly, that is to say, the taxes caused on January must be pay on February 17.



CALCULATION OF PAYROLL TAX

TYPE OF PERCEPTION	JANUARY
Salary	500,000.00
Vacations	5,000.00
Vacation Bonus	2,000.00
Overtime	10,000.00
Commissions	20,000.00
Total Perceptions	537,000.00
Less:	
Excepted Perceptios	
Vacation Bonus	2,000.00

TYPE OF PERCEPTION	JANUARY
Severance	
Seniority Bonus	
Annual Gratification (30 days of SM)	
Profit sharing	
Social Benefits	
Total Excepted Perceptios	2,000.00
Tax Base payroll tax	535,000.00
(X) 3 %	3.00%
Caused Tax	16,050.00

The background of the slide is a photograph of a complex industrial system, likely a power plant or refinery. It features a dense network of large, polished metal pipes that curve and intersect in various directions. The lighting is bright, creating strong highlights and shadows on the metallic surfaces. In the lower right corner, there is a white, pixelated graphic element that resembles a staircase or a series of steps.

LABOR REGIME

9. COMPULSORY LABOR BENEFITS IN ADDITION TO SALARY

Year-End/Christmas Bonus

Employees must receive bonus before December 20th, equivalent to at least 15 days of salary. Payment must be made in cash to the employee.

Vacations

According to the following:

Vacation bonus

Employees will have the right to be paid a bonus of 25% of the wages they receive for vacations.

Employee Participation in Profit Sharing

Employees must be registered before the social security institutions Mexican Institute for Social Security (as per its initials in Spanish, “**IMSS**”) and the Institute of the National Fund for the Employees Housing (as per its initials in Spanish, “**INFONAVIT**”).

VACATION DAYS	
Years worked	Holidays
1	12
2	14
3	16
4	18
5	20
6 a 10	22
11 a 15	24
16 a 20	26
21 a 25	28
25 a 30	30
31 a 35	32

10. WORKING HOURS

Day. From 6:00 a.m. to 8:00 p.m.

Mixed. It includes times of the day and night shift provided that the night period is less than three and a half hours, otherwise it will be night.

Night. From 8:00 p.m. to 6:00 a.m. the next day.

The maximum daily duration of the **day shift is 8 hours** (48 hours per week), **night shift is 7 hours** (42 hours per week) and **7.5 hours for the mixed one** (45 hours per week), in cases where the employee only enjoys one day off for every six days of work. If the employer and the employee agree to distribute the total of the weekly hours, so that the employee enjoys more than one day of rest, then the hours can be distributed among 5 or fewer days of the week, avoiding that the day is considered excessive.

During the day, the employee will be granted a break of at least half an hour. If the employee cannot leave the workplace during the break time, said period will be computed as effective time of the day. For example, if an employee works during the daytime and can leave his workplace, he must work eight effective hours during the daytime, but if he cannot leave, then he will work 7 effective hours.



10. OVERTIME AND OTHER RESTING DAYS

- The day may be extended due to extraordinary circumstances.
- Without exceeding 3 hours a day or 3 times in a week (9 hours in total).
- Payment: 200% every extra hour.
- However, after the 9th: 300%.

Mandatory Holydays:

- January 1st,
- 1st Monday of February,
- 3rd Monday of March,
- May 1st,
- September 16th,
- 3rd Monday of November,
- December 1st of every 6 years,
- December 25th, and
- designated days for elections.

In case of working them, a triple salary must be paid.



11. LAYOFF INDEMNITY PAYMENT

- In Mexico, not temporally employees that are dismissed without justification are entitled to constitutional compensations according to Article 51 of the Mexican Federal Labor Law (LFT), which includes:
 - Three months salary (integrated) in accordance with Article 50 of LFT.



LAYOFF INDEMNITY PAYMENT

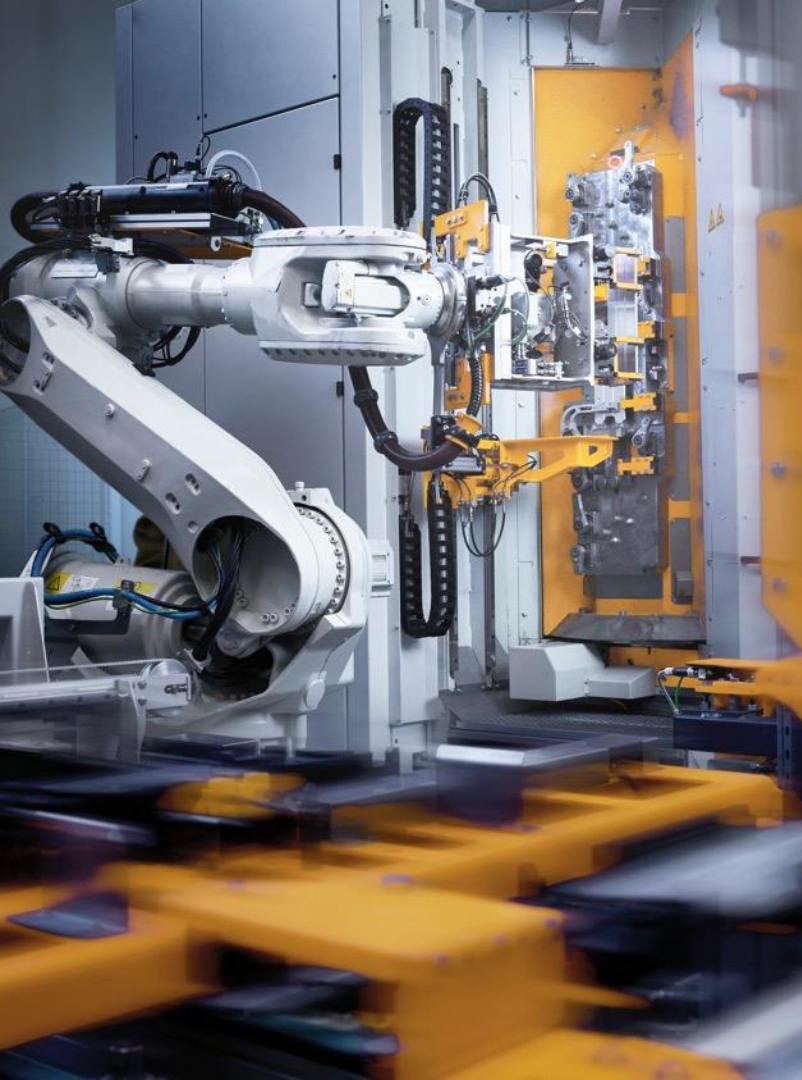
Example:

Daily Wage	\$500.00
Vacation Payment	\$4.11
Christmas Bonus	\$20.54
Integrated Daily Salary	\$524.65
\$ 524.65 x 90 Days =	\$47,218.50



LAYOFF INDEMNITY PAYMENT

- Seniority premium equivalent to **12 days of salary for each year of service** in accordance with Article 162 of the LFT. This premium is calculated in accordance with articles 485 and 486 of the LFT.
- Example: a worker with 2 years seniority
 - Minimum salary limit (UMA):
\$ 113.14
 - $\$ 113.14 \times 2 = 226.28$ maximum salary limit for seniority premium calculation.
 - **$226.28 \times 12 \text{ Days} \times 2 \text{ (years of service)} = 5,430.72$**



LAYOFF INDEMNITY PAYMENT

- The seniority premium is paid also to employees who voluntarily resign if they have at least completed 15 years of service.
- You must pay others benefits such as proportional Christmas bonus, vacations, overtime, holidays, etc.
- 20 days salary for each year of service if in a trial the employee requests to the Board of Conciliation and Arbitration reinstall (go back to the job) and the employer doesn't comply with it.

Example:

$524.65 \times 20 \text{ days per year} \times 2 \text{ years of service} = \$ 20,986.00$

- In this case the employee is entitled to be pay for the days he didn't work during the trial until a maximum of 15 months (fallen salaries)



STATE LODGING TAX

LODGING TAX

- The base to calculate this tax is the sum of all the revenue charge to clients exclusively for lodging (no meals and other). The rate is about 2%, 3%, 4% and 5%, each state has different %.
- It must be paid monthly, that is to say, the taxes caused on January must be pay on February 17.

MONTH	ROOM RENTAL	MAINTENANCE FEE	TOTAL TAXABLE INCOME	LODGING TAX 3%
ENERO	3,268,987.57		3,268,987.57	98,069.63
FEBRERO	3,563,627.46		3,563,627.46	106,908.82
MARZO	3,560,945.98		3,560,945.98	106,828.38
ABRIL	8,761,127.85		8,761,127.85	262,833.84
TOTAL	19,154,688.86	0.00	19,154,688.86	574,640.67

RSM Mexico



Annex 1

TAX | TRANSFER PRICING



3	Overview of transfer pricing
17	Our approach
25	Local Legislation

OVERVIEW OF TRANSFER PRICING

OVERVIEW OF TRANSFER PRICING

- Transfer pricing, the determination of prices charged by one affiliated company to another in intercompany transactions, is increasingly becoming a focus of international tax inspectors around the world.

OVERVIEW OF TRANSFER PRICING

- Many countries have introduced legislation and documentation rules regarding transfer pricing.
- Tax authorities around the world are increasing cross-border dialogues and transfer pricing enforcement abilities and have shifted their focus from large taxpayers to small and midsize taxpayers.



OVERVIEW OF TRANSFER PRICING

- Authorities are not limiting their focus to transfer of tangible goods.
- Transfers of intangible assets, services and funding are also increasingly being closely scrutinized.

OVERVIEW OF TRANSFER PRICING

Risk

- Holding companies, constitute Permanent Establishment in Mexico because of their activities performed by their lower-level subsidiary company in Mexico (maquiladora company).
- Potential double taxation of intercompany income if the other jurisdiction will not allow a “mirror” adjustment.
- Double non taxation.



OVERVIEW OF TRANSFER PRICING

Risk

- In addition, transfer pricing legislation includes a provision for the imposition of significant penalties when adjustments are made to taxable profits following an audit.



OVERVIEW OF TRANSFER PRICING

Opportunity

- Effective transfer pricing can help minimize global taxation.
- Adequate contemporaneous documentation of transfer pricing strategy and implementation can usually safeguard against the imposition of penalties.



OVERVIEW OF TRANSFER PRICING

Arm's-length terms

- Terms that would result from the transfer of the same property or services between two **unrelated** entities in similar circumstances.



TRANSFER PRICING

Two approaches:

- Transactional analysis
- Profit based analysis



TRANSFER PRICING

Transactional analysis

- Arm's-length prices are determined by comparison with comparable uncontrolled prices – similar transactions between **unrelated** parties.



TRANSFER PRICING

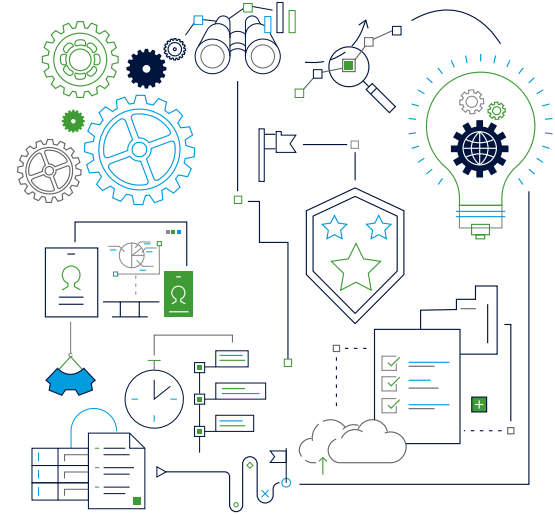
Profit based analysis

- Arm's-length prices are justified by comparison of the enterprise profitability with that of comparable uncontrolled legal entities.

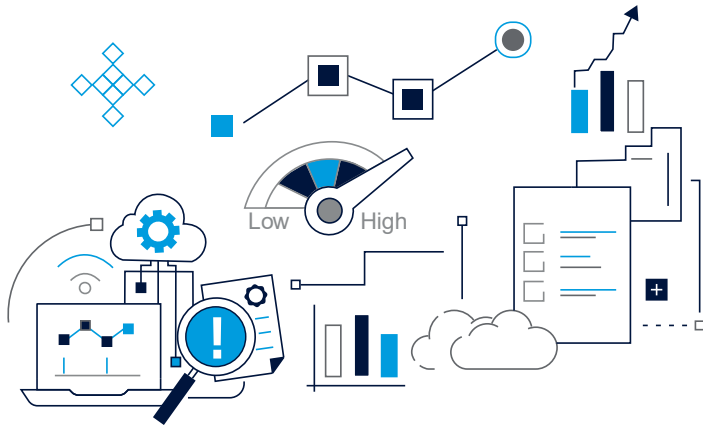


TRANSFER PRICING METHODS IN MEXICO

- CUP – Comparable Uncontrolled Price
- Resale Price Method
- Cost Plus Method
- Profit Split Method
- Residual profit split Method
- Transactional Operating Profit Margins Method



DOCUMENTATION



- A key element of a transfer pricing strategy, whether it is transaction or profit based, it's documentation.
- The availability of contemporaneous transfer pricing documentation is a fundamental requirement of all transfer pricing legislation.
- Both the Mexican regulations and the OECD Guidelines include recommendations of what documentation should be prepared.

DOCUMENTATION

- Business overview.
- Organizational structure.
- Details of the controlled transactions.
- Identity and relationship of the parties to the transactions.
- Financial results.
- Data, methods and analysis used to determine transfer pricing.
- Discussion of methods not used.
- Functional analysis.
- Discussion of comparable companies used.
- Discussion of any assumptions, strategies and policies influencing the transfer pricing.



OUR APPROACH

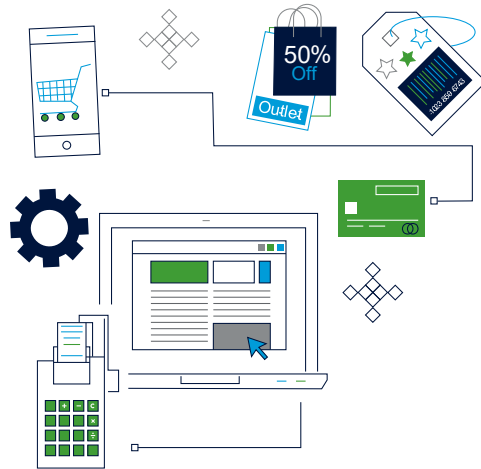
OUR APPROACH

1. Understand business and intercompany relationships.

- Analyze business functions and related party transactions.
- Define risks undertaken by each party.
- Analyze economic conditions, contractual terms and intangibles.



OUR APPROACH



Business functions

- Product design and engineering.
- Fabrication, extraction and assembly.
- Purchasing and materials management.
- Marketing and distribution – advertising, warranty administration, inventory management.
- Transportation and warehousing.
- Managerial, legal, accounting , admin.

OUR APPROACH

Business Risks

- Market risks – fluctuations in cost, demand, pricing, inventory.
- Financial risks – exchange risk, interest rates.
- Product liability risks.
- Credit and collection.
- Property ownership risks.
- R&D successes and failures.



OUR APPROACH

Intangible Assets

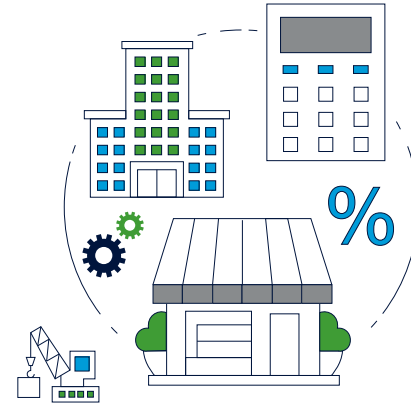
- Patents, inventions, formulae, processes, designs, patterns, know-how.
- Copyrights.
- Trade marks and trade names.
- Franchises, licenses, or contracts.
- Methods, programs, systems , procedures, surveys, studies, forecasts, customer lists, technical data.



OUR APPROACH

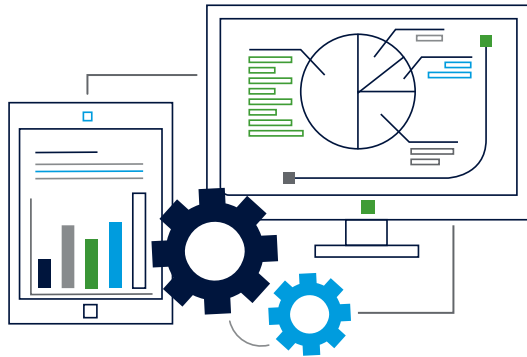
2. Determine the most appropriate method and select comparable companies

- Not all transfer pricing methodologies work for all companies. Based on our understanding of your business model we select the most appropriate method for your company's related party transactions to test their arm's length nature.



OUR APPROACH

3. Determine arm's length pricing ranges



- Using the transfer pricing method identified as most suitable for your company we determine the arms length price ranges.
- We test the company's current position within such price ranges and make recommendations on any necessary modifications. During this exercise we take full account of your business objectives.

OUR APPROACH

4. Document results

- Once the arm's length pricing range has been quantified and the company's position is tested within this range, we prepare a report in order to document the review process undertaken and the conclusions reached.
- This report would be used to defend your position if challenged by tax authorities. The final report will:
 - Confirm the propriety of your company's transfer pricing methodology.
 - Deliver the up-to-date documentation required by tax authorities.
 - Minimize the risk of double taxation and tax audit adjustments.
 - Identify new opportunities and recommend new solutions for global tax minimization.

LOCAL LEGISLATION

LOCAL LEGISLATION

Legislation

- Many countries follow the Organization for Economic Co-operation and Development (“OECD”)’s guidelines.
- OECD and Mexican legislation are based on the arm’s-length principle – related parties should conduct business on arm’s-length terms.



LOCAL LEGISLATION

Legislation

Related parties (Art. 76-IX, XII)

Companies must prepare a transfer pricing study for all their Intercompany transactions with related parties (domestic and foreign) to prove that income and deductions from those transactions are at arm's length conditions.



LOCAL LEGISLATION

Transfer Pricing Information Return

- Must be filed by all the companies which carry out transactions with related parties foreign.



LOCAL LEGISLATION

Form 76, Relevant Transactions

Annex II. Transactions with Related Parties:

- Transactions with related parties, both foreign and domestic, that involve: Adjustments of more than 20 percent to the prices used in transactions with related parties (foreign or domestic) to conform to the arm's-length principle, for transactions carried out in prior calendar years or the current year.
- Adjustments to the prices used in transactions with related parties (foreign or domestic) carried out in prior years or the current year that have resulted in an adjusted price of more than MX\$ 5 million to conform to the arm's-length principle.
- Amounts paid or expensed for royalties charged by related parties (foreign or domestic), determined under the residual profit-split method, as defined by Mexican transfer pricing standards and Organization of Economic Co-operation and Development guidelines.



LOCAL LEGISLATION

Form 76, Relevant Transactions

R 2.8.1.12 RRMF2025:

Regulations have provided the following automatically extended due dates:

Reporting Period	Filing Due Date
First quarter of 2025	May 31, 2025
Second quarter of 2025	Aug. 31, 2025
Third quarter of 2025	Nov. 30, 2025
Fourth quarter of 2025	Feb. 28, 2026

LOCAL LEGISLATION

Form 76, Relevant Transactions

R 2.8.1.12 RRMF2025:

- Taxpayers who have not performed any of the relevant transactions during the period, are discharged from the obligation to present the Form 76.
- Taxpayers who are not part of the financial sector, who performed transactions under MXN \$60 million are not required to file the Form 76.



BEPS

BACKGROUND

February 12, 2013 – OECD- **Addressing Base Erosion and Profit Shifting.**

Requested by G20- Nov 2012.

OECD - Forum on Tax Administration 16-17 May 2013.



BEPS

BACKGROUND

- Base erosion constitutes a serious risk to tax revenues, tax sovereignty and tax fairness for OECD member countries and non-members alike.
- There is no question that BEPS is a pressing and current issue for a number of jurisdictions.
- Today's environment of global taxpayers, is characterised by the increasing importance of intellectual property as a value-driver and by constant developments of information and communication technologies.



BEPS

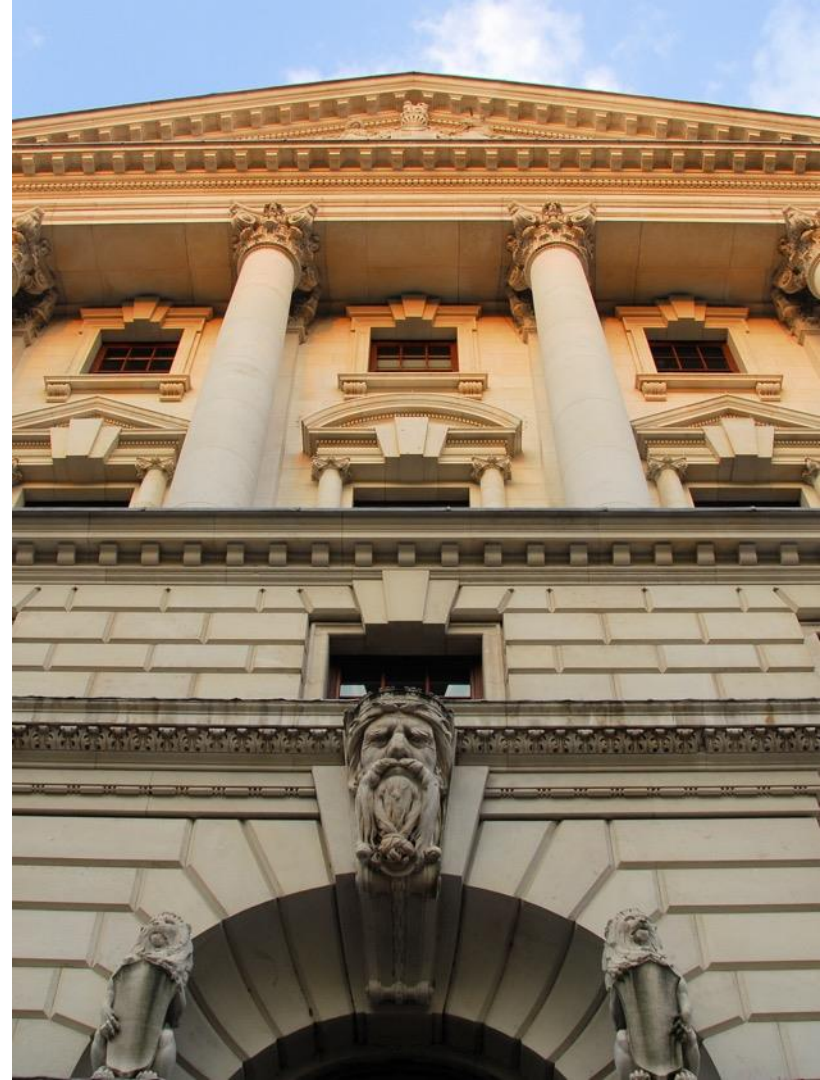
BACKGROUND

- Rules to address double taxation, many of which originated with principles developed by the League of Nations in the 1920s.
- The interaction of domestic tax systems, however, can also lead to gaps that provide opportunities to eliminate or significantly reduce taxation on income in a manner that is inconsistent with the policy objectives.
- Multinational corporations often exploit differences in domestic tax rules and international standards that provide opportunities to eliminate or significantly reduce taxation.

BEPS

BACKGROUND

- The OECD work on aggressive tax planning, including its directory of aggressive tax planning schemes, [is being used by government officials](#) from several countries, which are intensively drawing on this work to improve their audit performance.
- In an era where non-resident taxpayers can derive substantial profits from transacting with customers located in another country, questions are being raised on whether the current rules are fit for purpose.
- There are a number of structures, **technically legal**, which take advantage of asymmetries in domestic and international tax rules.



BEPS

BEPS Actions

Action 1	Addressing the tax challenges of the digital economy
Action 2	Neutralising the effects of hybrid mismatch arrangements
Action 3	Designing effective controlled foreign company (cfc) rules
Action 4	Limiting base erosion involving interest deductions and other financial payments
Action 5	Countering harmful tax practices more effectively, taking into account transparency and substance
Action 6	Preventing the granting of treaty benefits in inappropriate circumstances
Action 7	Preventing the artificial avoidance of permanent establishment status

BEPS

BEPS Actions

Actions 8-10	Aligning transfer pricing outcomes with value creation
Action 11	Measuring and monitoring beps
Action 12	Mandatory disclosure rules
Action 13	Transfer pricing documentation and country-by-country reporting
Action 14	Making dispute resolution mechanisms more effective
Action 15	Developing a multilateral instrument to modify bilateral tax treaties

LOCAL LEGISLATION

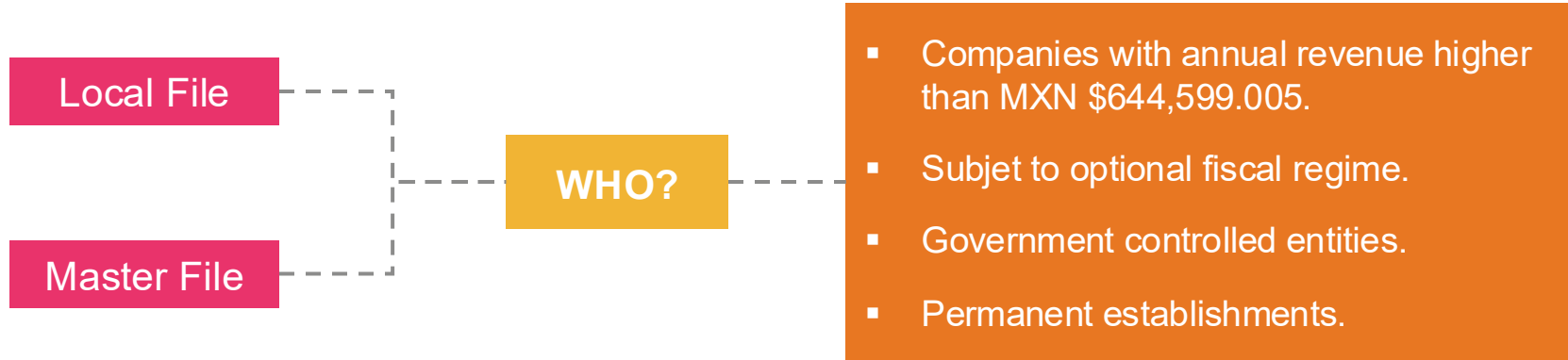
BEPS in Mexico

- Consistent with BEPS Action plan mexican taxpayers which exceed the threshold must file the following returns:
 - Local File
 - Master File
 - Country by Country Report (CbCr)



LOCAL LEGISLATION

BEPS in Mexico



LOCAL LEGISLATION

BEPS in Mexico

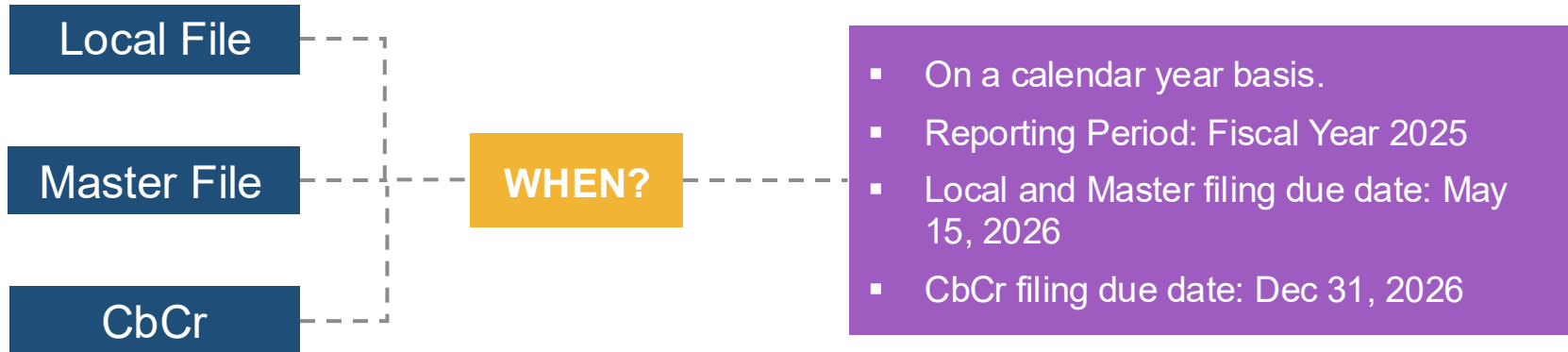
CbCr

WHO?

- Mexican Holdings of multinational groups with annual revenue higher than MXN \$12,000,000,000 in the preceding year or those designated by the holding of the multinational group to file the CbCr.

LOCAL LEGISLATION

BEPS in Mexico



RSM Mexico



Annex 2

Overview of a Maquiladora Operation



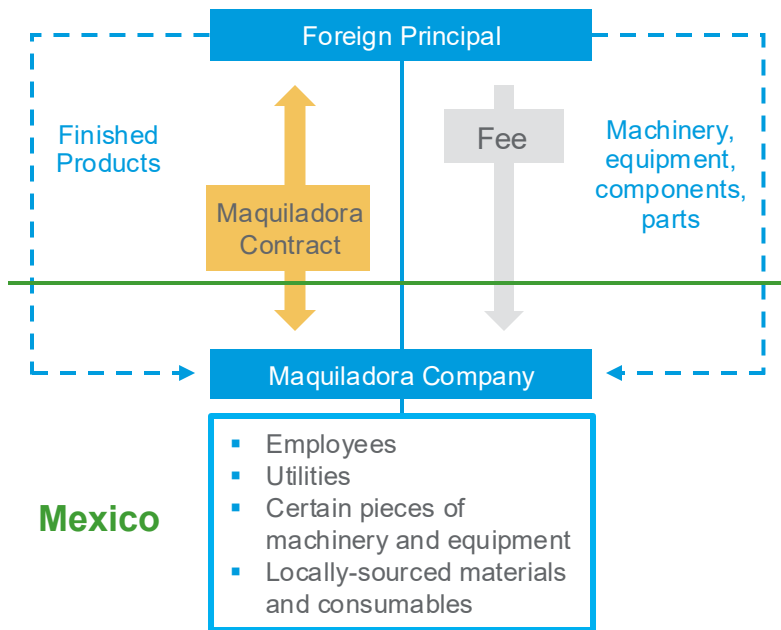
Today's Agenda

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INTRODUCTION

INTRODUCTION

Foreign country



Maquiladora as an operational arrangement

A “Maquiladora” (a/k/a “Maquila”) is not a tax election. It is a [contractual arrangement](#) between a foreign (non-Mexican) company (Foreign Principal) and its Mexican subsidiary (“Maquiladora Company”, a/k/a “Maquiladora” or “Maquila”).

Most of the equipment, materials, components and parts are procured by the Foreign Principal, [but are not sold](#) to the Maquiladora Company (The Foreign Principal retains ownership).

The Maquiladora Company utilizes the inputs procured by the Foreign Principal to manufacture, assemble, fabricate a product, which is shipped out of Mexico. The finished product is also owned by the Foreign Principal.

In exchange for manufacturing the product, the Foreign Principal pays the Maquiladora Company a fee.

The Maquiladora Company uses the cash received from the fee to pay operating and indirect costs, and administration expenses.

INTRODUCTION

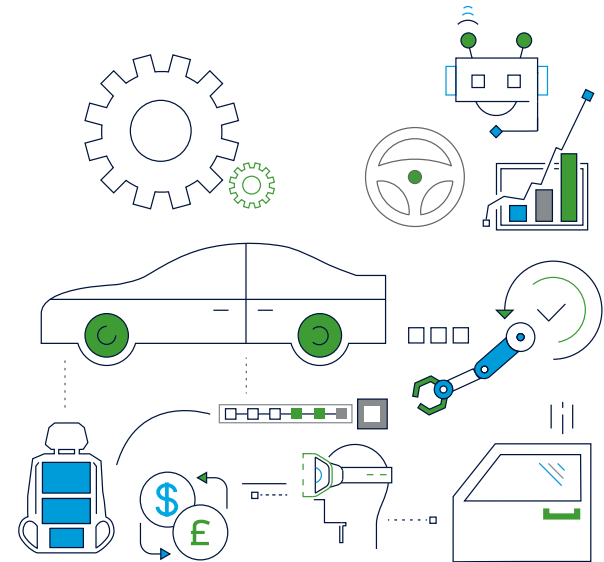
Character of a Maquiladora

In order to establish a Maquiladora Company, the Foreign Principal must form the subsidiary as a Mexican legal entity.

- No Maquila operations are allowed through a branch, office or facility (leased or owned) by the Foreign Principal.
- Some organizations see the Maquiladora Company as just an “annex” or extension of their manufacturing operations.
- From a financial reporting point of view, the Maquiladora Company is often seen as an additional cost center.

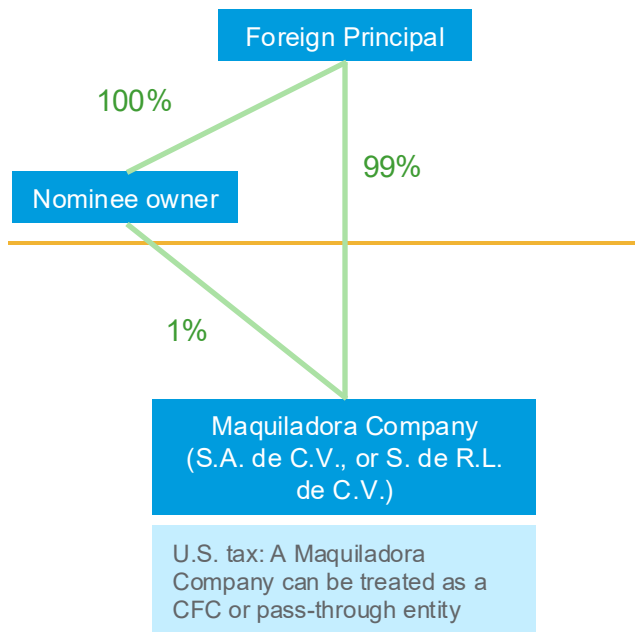
From a Mexican point of view, for all legal, accounting and tax purposes, the Maquiladora Company is a legal person, separate from its owners or stockholders, capable of acquiring rights and obligations.

- The Maquiladora contract is a binding legal commitment between two parties (the Foreign Principal and the Maquiladora Company).
- The Maquiladora Company is a service provider, providing manufacturing services to only one “Customer” (the Foreign Owner).



INTRODUCTION

Legal structure



Any Mexican legal entity has to be formed per Mexican enterprise entities law.

There are several types of enterprise entities in Mexico, but the most commonly used for Maquiladora Companies are:

- “S.A. de C.V.” – Stock Corporation.
- “S. de R.L. de C.V.” – Limited Liability Company.

Both types of entities are corporate taxpayers in Mexico (*taxation is discussed later*).

More-than-one-owner rule: The legal entity must have at least two separate owners at all times.

A Maquiladora Company must adhere to the above provisions (no different from a distribution company, or a fully-fledged manufacturing company).

Mexico

This illustrates a typical ownership structure, although there are multiple alternative legal ownership structures.

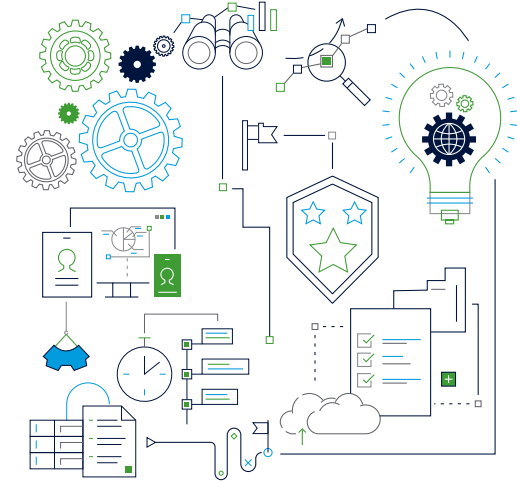
The background of the slide is a photograph of a complex industrial system. It features numerous large, polished metal pipes that curve and intersect in various directions. The lighting is bright, creating strong highlights and shadows on the metallic surfaces. In the lower right corner, there is a white, pixelated graphic element that looks like a stylized staircase or a cluster of blocks.

CUSTOMS REGULATORY FRAMEWORK

IMMEX Program

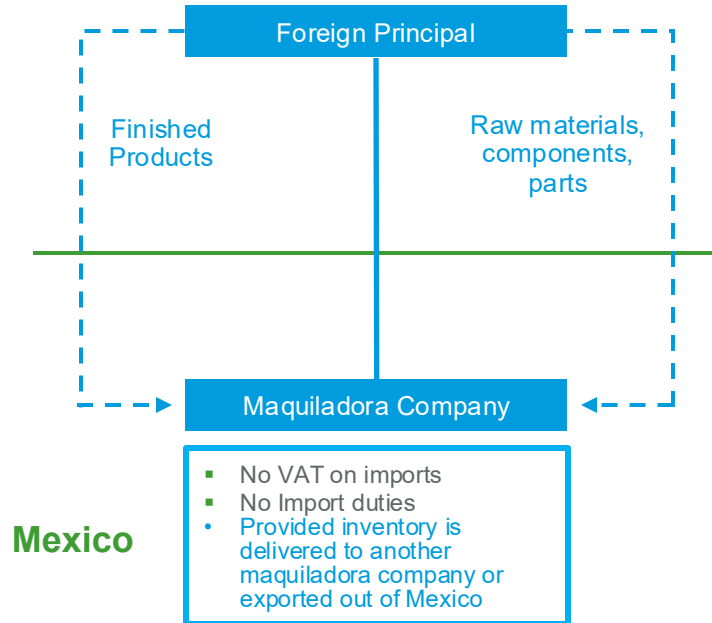
“Decree for the Promotion of the Manufacturing, Maquiladora and Export Service Industry” (IMMEX Program)

- Program created by the Mexico’s Secretary of Economy to promote export production.
- The holder of an IMMEX Program, can import into Mexico without incurring import duties machinery, equipment, materials, parts and components that are used to manufacture, assemble or process products in Mexico that are exported out of Mexico.
 - This type of importation is commonly known as “Temporary Importation” (Compare to a “Permanent Importation”, where the imported property is intended to remain in Mexico indefinitely).
- In some cases, the goods are manufactured by one IMMEX Program holder, and then transferred to another Mexican IMMEX Program holder in the supply chain for additional processing or incorporation into another product, which is then eventually exported out of Mexico.
 - This is commonly known as an “indirect” export.



IMMEX Program: How does it work?

Foreign country



The IMMEX program provides important customs benefits.

These benefits will be fully realized if all the goods (including Machinery and equipment) to be imported on a temporary basis are appropriately documented and tracked down adequately once they have entered the country to ensure custom duties do not inadvertently become due.

The IMMEX program allows to import Machinery, Equipment and Inventory without paying import duties, in order to manufacture a product that is exported out of Mexico.

IMMEX Program

The IMMEX Program is available for any Mexican Company that manufactures products in Mexico for export.

- Contract manufacturers for export production.
- Companies with both domestic and export sales.
- Maquiladora Companies.

As a corollary:

All Maquiladora Companies are IMMEX Program holders, but not all IMMEX Program holders are Maquiladora Companies.



VALUE ADDED TAX (VAT) CERTIFICATION

As importer of record, a Maquiladora Company must pay VAT at the point of entry upon introducing into Mexico the machinery, equipment, materials and components.

- This holds true even if the Maquiladora Company has an IMMEX Program in place.
- The import VAT is avoided if the Maquiladora Company has a “VAT Certification” in place.
- A VAT Certification also provides the importer of record the following additional benefits:
 - Expeditious process of VAT refunds, in some cases.
 - The ability to carry out “Virtual Imports and Exports”. Virtual Imports and Exports allow for the transfer of imported goods to other Mexican residents without the need to physically export the goods, and without incurring VAT.
 - Provide extended time for goods to remain imported temporarily.
 - Provide customs-related procedural and administrative simplification.

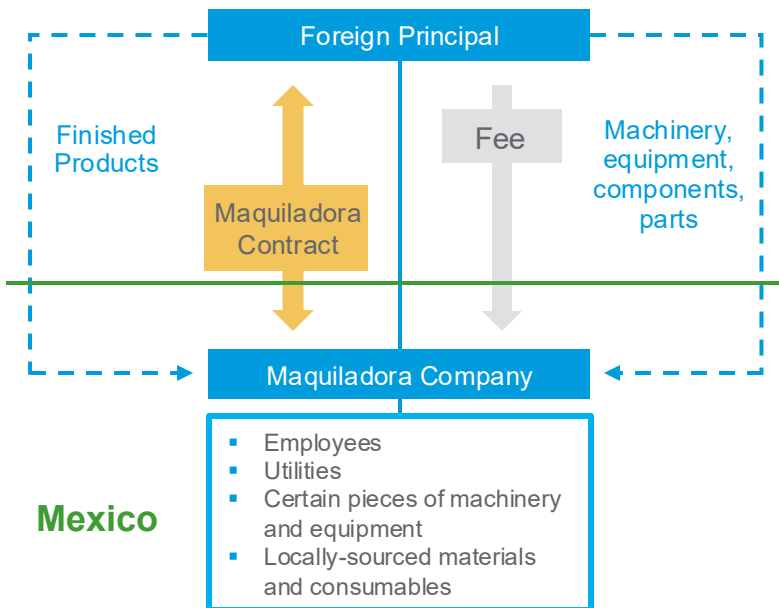
VAT mechanics are discussed later.



INCOME TAX

INCOME TAX

Foreign country



As any Mexican business enterprise, a Maquiladora Company is a corporate taxpayer and therefore must pay Mexican corporate income tax.

- The fee constitutes the Maquiladora Company's gross receipts for income tax purposes.

A Maquiladora Company is a Mexican corporate taxpayer carrying out a transaction with a foreign related party.

- Transaction: Rendering of manufacturing services.
- Foreign related party: Foreign Principal It starting to look a lot like...

Transfer Pricing!

The fee that the Foreign Principal pays to the Maquiladora Company must meet Mexican transfer pricing rules – More on this later.

INCOME TAX

Transfer pricing regime – Safe Harbor

Maquiladora Companies are subject to a special transfer pricing regime, unique to this type of taxpayer.

Under the current transfer pricing regime for Maquiladora Companies, the fee that the Maquiladora charges its Foreign Principal is deemed to be compliant with transfer pricing rules if the net income that the Maquiladora obtains thereof is the highest of:

- 6.5% of the total costs and expenses that the Maquiladora incurs in the manufacturing or assembly process.

Or

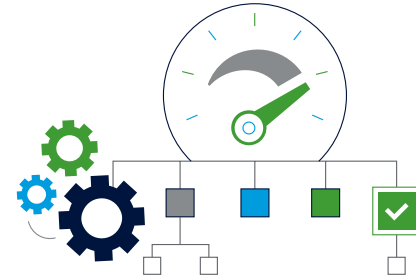
- 6.9% of the net tax basis of all the assets (both Foreign Principal-owned as well as Maquiladora Company-owned).

The Maquiladora Company has to calculate its net taxable income every year.

- It is a comparison game – *Which one is the highest of the two?*

The net taxable income is also the basis to determine the maximum amount of profit sharing distributable to the Maquiladora Company's profit sharing ("PTU").

This method is commonly known as "Safe Harbor".



INCOME TAX

Income tax roadmap under the Safe Harbor method

6.5% of the total costs and expenses that the Maquiladora Company incurs in the manufacturing or assembly process.

- Salaries and wages.
- Consumables.
- Materials purchased by the Maquiladora Company.
- Lease / rent.
- Tax depreciation of Maquiladora Company-owned assets.
- Utilities.
- Other similar concepts.

Determined per Mexican accounting standards and Mexican tax rules of accounting.

6.9% of the net tax basis of all the assets (both Foreign Principal-owned as well as Maquiladora Company owned).

- Receivables in the hands of the Maquiladora (*).
- Inventory of parts, materials, components located in the Maquiladora Company's facility.
- Finished product sitting at the Maquiladora Company's facility
- Machinery, equipment, tools, etc

The net basis is calculated per Mexican tax rules.

() Including receivable due from the Foreign Principal*



INCOME TAX

Income tax roadmap under the Safe Harbor method – Example 1

The Maquiladora Company calculates the two “pools”:

6.5% of costs and expenses pool

Salaries	1,000,000
Consumables	25,000
Materials purchased by Maquiladora	5,000
Consumables	1,200
Lease / rent	450,000
Tax depreciation of Maquiladora-owned forklifts	3,000
Utilities	<u>1,000</u>
Total costs and expenses	1,485,200
Mark-up	<u>6.50%</u>
Net income under 6.5% pool	<u>96,538</u>

6.9% of net tax basis of assets

A/R due from Foreign Principal	150,000
Inventory of parts, components located in Mexico	70,000
Inventory of finished product	250,000
Net M&E (Foreign Principal-owned)	40,000
Net (M&E) Maquiladora-owned forklifts	<u>120,000</u>
Net basis of assets	<u>630,000</u>
Rate	6.90%
Net income under the 6.9% pool	<u>43,470</u>

All of these items must be determined per Mexican tax rules and Mexican acct. standards.

Highest of the two:		96,538
Corporate income tax liability	30%	28,961
Maximum PTU distributable	10%	9,654

All of these items must be determined per Mexican tax rules and Mexican acct. standards.

To the extent that the Maquiladora Company's income tax return shows the above figures, it will be deemed compliant with Mexican transfer pricing legislation. In most cases, the IRS will consider that a U.S. Principal for a Maquiladora is also compliant with Sec. 482 requirements if the Maquiladora Company is compliant.

INCOME TAX

Income tax roadmap under the Safe Harbor method – Example 1

The Maquiladora Company calculates the two “pools”:

Gross receipts from Maquila services to Foreign Principal	1,581,738
Total costs and expenses	<u>1,485,200</u>
Net income	<u>96,538</u>
Income tax (30%)	28,961
PTU (10%)	9,654



To the extent that the Maquiladora Company's income tax return shows the above figures, it will be deemed compliant with Mexican transfer pricing legislation. In most cases, the IRS will consider that a U.S. Principal for a Maquiladora is also compliant with Sec. 482 requirements if the Maquiladora Company is compliant.

INCOME TAX

Income tax roadmap under the Safe Harbor method – Example 2

The Maquiladora Company's P&L for tax purposes looks as follows:

6.5% of costs and expenses pool

Salaries	1,000,000
Consumables	25,000
Materials purchased by Maquiladora	5,000
Consumables	1,200
Lease / rent	450,000
Tax depreciation of Maquiladora-owned forklifts	3,000
Utilities	<u>1,000</u>
Total costs and expenses	1,485,200
Mark-up	<u>6.50%</u>
Net income under 6.5% pool	<u>96,538</u>

6.9% of net tax basis of assets

A/R due from Foreign Principal	75,000
Inventory of parts, components located in Mexico	80,000
Inventory of finished product	600,000
Net M&E (Foreign Principal-owned)	1,300,000
Net (M&E) Maquiladora-owned forklifts	<u>240,000</u>
Net basis of assets	2,295,000
Rate	<u>6.90%</u>
Net income under the 6.9% pool	<u>158,355</u>

All of these items must be determined per Mexican tax rules and Mexican acct. standards.

Highest of the two:		158,355
Corporate income tax liability	30%	47,507
Maximum PTU distributable	10%	15,836

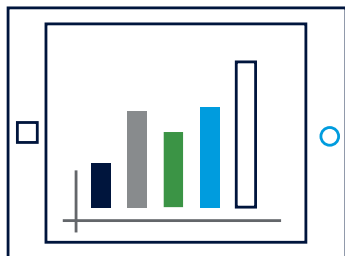
All of these items must be determined per Mexican tax rules and Mexican acct. standards.

To the extent that the Maquiladora Company's income tax return shows the above figures, it will be deemed compliant with Mexican transfer pricing legislation. In most cases, the IRS will consider that a U.S. Principal for a Maquiladora is also compliant with Sec. 482 requirements if the Maquiladora Company is compliant.

INCOME TAX

Income tax roadmap under the Safe Harbor method – Example 1

The Maquiladora Company calculates the two “pools”:



Gross receipts from Maquila services to Foreign Principal (*)	358,555
Total costs and expenses	200,200
Net income	158,355
Income tax (30%)	47,507
PTU (10%)	15,836

() Adjusted to reach the \$158,355 net income, as determined under the 6.9% pool.*

To the extent that the Maquiladora Company's income tax return shows the above figures, it will be deemed compliant with Mexican transfer pricing legislation. In most cases, the IRS will consider that a U.S. Principal for a Maquiladora is also compliant with Sec. 482 requirements if the Maquiladora Company is compliant.

INCOME TAX

Transfer pricing regime – a little history...

Until 2021, instead of using the Safe Harbor method to calculate their net taxable income, Maquiladora Companies had the option to enter into a negotiation with the Mexican tax authorities (“SAT”) to agree in a more traditional transfer pricing methodology, through the submission of an Advanced Pricing Agreement (“APA”).

If the APA was approved by the SAT, the transfer pricing methodology included in the APA submission would be used for up to five tax years.

The APA usually resulted in a lower net taxable income (and therefore, lower income tax and PTU) than the Safe Harbor option.

In 2021, the APA option was repealed, leaving Maquiladora Companies with only the Safe Harbor methodology.



INCOME TAX

Transfer pricing regime – a little history...

In order to “extend” the APA, some Maquiladora Companies submitted another APA submission before the end of 2021.

If the SAT approves that second APA submission, the Maquiladora Company can continue using the transfer pricing methodology therein included for an additional 5 years.

Maquiladora Companies that initiate manufacturing operations on or after January 1, 2022 can only use the Safe Harbor option. They can no longer file an APA submission with the SAT.



PERMANENT ESTABLISHMENT

PERMANENT ESTABLISHMENT

Permanent establishment exposure for the Foreign Principal

According to the Mexican Income Tax Law, a Foreign Principal may have a [permanent establishment](#) by virtue of having their Maquiladora Company manufacture product in Mexico.

The above is consistent with the provisions of some tax treaties that Mexico has signed with other countries (for example, the U.S.).

So, what does that mean?

If the Foreign Principal has a permanent establishment in Mexico, it will be subject to Mexican income tax on the net income it obtains from the sale of the products manufactured by the Maquiladora Company [even if those products are sold outside Mexico.](#)



PERMANENT ESTABLISHMENT

Permanent establishment exposure for the Foreign Principal

How can permanent establishment be avoided? – By having the Maquiladora Company meet all of the below:

Have an IMMEX Program in good standing.

All of the product it manufactures in Mexico be either shipped out of Mexico, or delivered in Mexico to another Maquiladora Company.

That it obtains no revenue other than the fee it charges to its Foreign Principal.

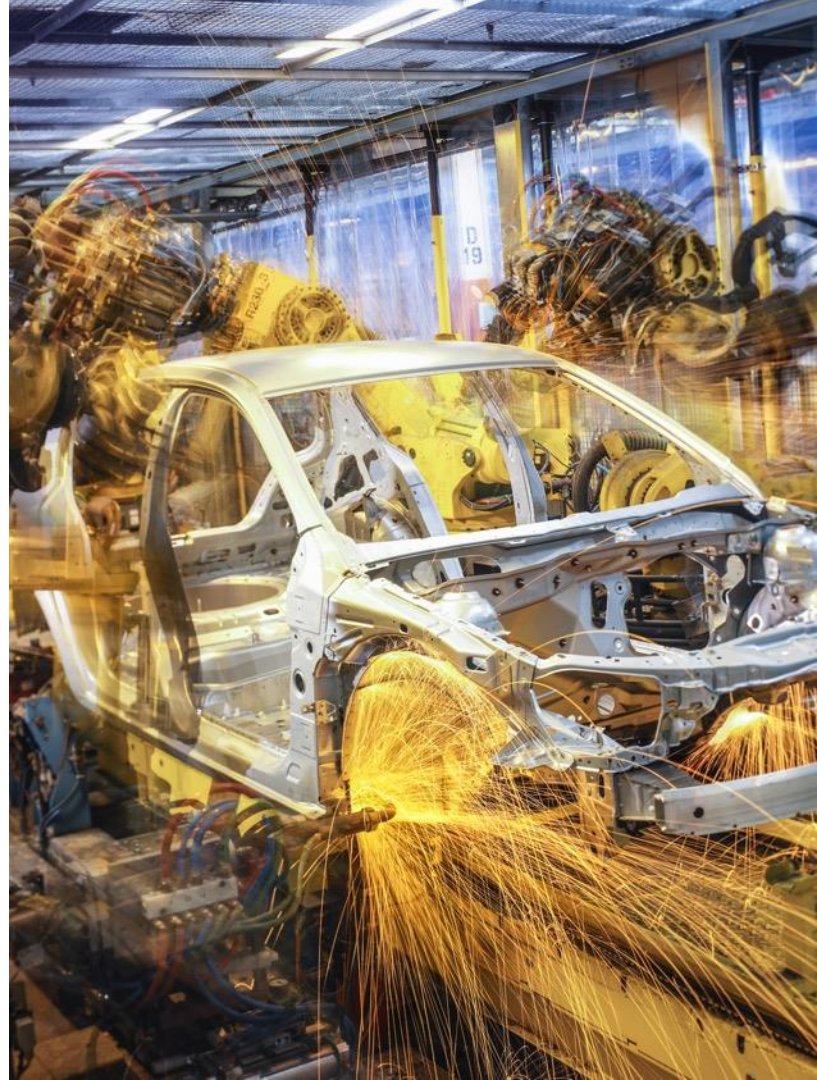
- Income from lease of property or rendering of administrative services is allowed, but cannot exceed 10% of the Maquiladora Company's total gross receipts.

That the net value of Foreign Principal-owned M&E be 30% or more of the aggregate value of all of the M&E that the Maquiladora Company uses in the manufacturing process.

Net value of Foreign Principal-owned M&E

= 30% or more

Net value of Foreign Principal-owned M&E + Net value of Maquiladora-owned M&E



PERMANENT ESTABLISHMENT

Permanent establishment exposure for the Foreign Principal

How can permanent establishment be avoided? – By having the Maquiladora Company meet all of the below:

Refrain from buying finished product from the Foreign Principal and sell it Mexico or in an export sale.

Be in compliance with Mexican transfer pricing rules.

- Safe Harbor option, or
- APA, if elected (not applicable for Maquiladora operations beginning on or after January 1, 2022)

Maquiladora Companies must ensure they meet all of the above requirements at all times, in order to ensure protection against permanent establishment taxation for their Foreign Principal.



VALUE-ADDED TAX

VALUE ADDED TAX (VAT)

VAT is an indirect tax that is triggered when any of the following transactions take place:

- Transfer or legal title of tangible and intangible property, when the property is located in Mexico.
- Lease or rent of property, when the property is located in Mexico.
- The performance of services in Mexico, where the benefit of the service is obtained in Mexico.
- Importation into Mexico of property.

The general VAT rate is 16%, and is passed-along the economic chain until the end consumer pays it.

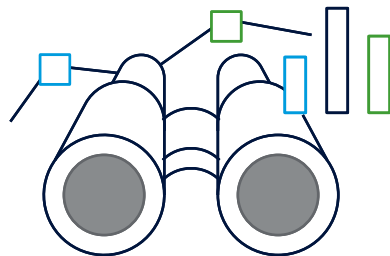
Certain qualifying transactions may escape VAT taxation.

- *Among them, the Temporary Importation of goods by an IMMEX Program holder that has a VAT Certification.*
- *Hence, a Maquiladora Company that has both an IMMEX Program and a VAT Certification in place will not pay VAT upon introducing goods into Mexico, destined for the manufacturing or assembly of export products.*
- *The performance of Maquila services for a Foreign Principal qualifies for a 0% VAT RATE.*
- *Hence, the Maquiladora Company is not required to charge its Foreign Principal the VAT on top of the fee.*



VALUE ADDED TAX (VAT)

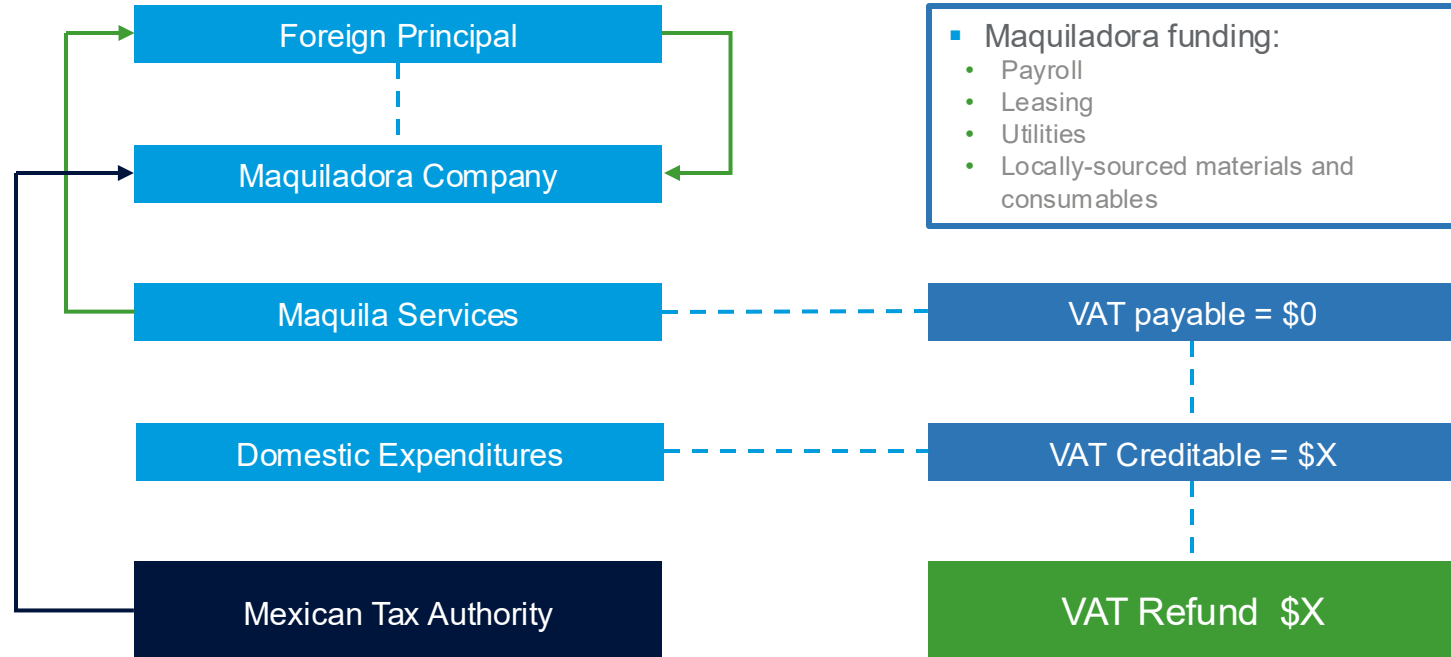
Example



	Month X
Monthly gross receipts from Maquila services to Foreign Principal	110,000
VAT Payable	-
Domestic Purchases and Expenses:	
Consumables	18,000
Materials purchased by Maquiladora	30,000
Consumables	12,000
Lease / rent	40,000
Total costs and expenses subject to VAT	100,000
VAT paid (Creditable) 16%	16,000
Net VAT Due (Recoverable)	(16,000)

- The Maquiladora Company is entitled to applying with the Mexican tax authorities for a refund of the \$ 16,000 of VAT recoverable.
- Most Maquiladora Companies consistently are in a VAT recoverable position. Applying for VAT refunds is part of their tax compliance and reporting routine.

VALUE ADDED TAX (VAT)



TOP MISCONCEPTIONS ABOUT MAQUILADORA OPERATIONS

TOP MISCONCEPTIONS ABOUT MAQUILADORA OPERATIONS

Concept	Clarifications
Maquiladora Companies can only be owned and operated by a U.S. Principal	Any foreign company can establish a Maquiladora Company in Mexico .
Maquiladora Companies can only be located at the border with the U.S.	Maquiladora Companies can be established anywhere in Mexico, provided it is outside a protected site (natural reserve, archeological sites, etc.).
Maquiladora Companies can only ship finished product back to the U.S.	A Maquiladora Company can export finished product any where in the world, even outside the country where the Foreign Principal resides (e.g. - A U.S.-owned and operated Maquiladora Company can ship finished product to Brazil).
Maquiladora Companies can sell product in Mexico.	Maquiladora Companies are precluded from selling product (either locally or export sale) – BUT they can deliver product in Mexico to another Maquiladora Company.
Maquiladora Companies cannot own assets.	Maquiladora Companies can own assets, as long as the 30% M&E test is met. Some Maquiladora Companies own the facility where the manufacturing takes place.
“Maquiladora” is a taxation regime or tax election.	A Maquiladora is a contractual arrangement. There is much more to a Maquiladora operation than tax treatment.

TOP MISCONCEPTIONS ABOUT MAQUILADORA OPERATIONS

Concept	Clarifications
A Maquiladora Company cannot distribute earnings.	As any other corporate taxpayer, a Maquiladora Company can distribute earnings, if it has the excess cash to pay them. The distribution has tax consequences in Mexico, as well as in the country where the distributee resides.



THANK YOU

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