DOING BUSINESS IN MEXICO

HLB Mexico

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Foreword

This booklet has been prepared for the use of clients, partners and staff of HLB International member firms. It is designed to give some general information to those contemplating doing business in Mexico and is not intended to be a comprehensive document. You should consult us, therefore, before taking further action.

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HLB México, S.C.

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Up-to-date information and general assistance on international matters can be obtained from any of the member firm partners of Mexico listed in this booklet or from the Executive Office in London.

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CONTENTS

1. - General Information

1.1. Geography and Climate

Mexico is a country covering 1,975,476 square kilometers (762,731 square miles). It has a 3,152 kilometers (1,959 miles) northern border with the United States. The southeastern border with Guatemala and Belize is 1,108 kilometers, (688 miles) long. It is bounded by the Gulf of Mexico on the East, the Caribbean Sea on the Southeast, and the Pacific Ocean on its West and South. The total extent of the coastline is 11,122 kilometers (6,912 miles).

Most of Mexico consists of highlands with fertile valleys across the mountains, except for Baja California and the Yucatan Peninsula. A great bio-diversity and natural resources can be found in its rainforests located in the South. Extensive deserts occupy most of the far North and West. Three mountain systems go across the country: the Western Sierra Madre, the Eastern Sierra Madre and the Southern Sierra Madre.

The climate in the central part of the country is temperate, the southern coasts are generally tropical and it is slightly cooler in the North. The rainy season in Mexico City lasts from June to September; and average annual precipitation is 23 inches. Mean minimum and maximum temperatures in July are 12°C (54°F) and 23°C (74°F) and, in January, 6°C (42°F) and 19°C (66°F)

1.2. Population and Language

According to the official census Mexico has 112.3 million inhabitants (54.9 male and 57.4 female) with an average annual growth rate between 2% and 3%. The median age is 29 years. The Mexican working force totals 47 million, while the unemployment rate is currently 5.2%.

Mexico City with its metropolitan area (20 million), Monterrey (3 million), Guadalajara (4 million), Puebla (2 million), Tijuana (1.5 million), and Ciudad Juarez (1.3 million) are the nation's most significant industrial and commercial cities. Mexico's most important ports are Veracruz and Tampico in the Gulf of Mexico; and Ensenada, Mazatlan, Manzanillo and Acapulco on the Pacific. Other important world-class coastal resorts are those of Los Cabos in South Baja California, Cancun and the Riviera Maya in Quintana Roo, and Ixtapa in Guerrero.

Spanish is the official language, although native pre-Columbian languages and dialects are also spoken, mostly in rural areas. English is spoken by a significant proportion of the population.

1.3. Currency

The unit of currency is the Mexican peso; each peso is divided in 100 cents, but the US dollar is often used as currency.

The exchange rate between the dollar and the Mexican Peso is set by the market (free floating system).

1.4 Government

The Constitution establishes that Mexico is a democratic and federal republic divided into 31 states with free and separate state governments and a federal district. The federal government is divided into three powers: the executive, the legislative, and the judicial.

The Executive power is held by the President, elected for a six-year term who may not be re-elected. The President appoints the members of his cabinet subject to approval by the Senate.

The Legislative power is vested in two bodies elected by direct popular vote: The Senate is comprised by 3 member of each State (128 total), elected for a six-year term. The other body is Congress, whose 500 Deputies are elected for a three-year term.

The Governor of the Federal District (Mexico City) and the State Governors are elected by direct popular vote and serve for a six-year term.

Judicial power resides in the Supreme Court of Justice which has 21 members, appointed by the Senate. There are also circuit courts and district courts.

The main political parties represented in the legislative branch are: PRI (Partido Revolucionario Institucional) , PAN (Partido Acción Nacional) a right wing party, PRD (Partido de la Revolución Democrática) the center-left alternative and PT (Partido del Trabajo) a left wing party.

1.5 Foreigners in Mexico Visas

<u>Visas</u>

To enter Mexico, visitors and investors must obtain visas from the Mexican Embassy or a consular office in their home countries.

The Department of the Interior (Secretaría de Gobernación) issues visas under the following categories:

Immigrant

This status is granted when a person is given permission to establish or remain in Mexico on a permanent basis. A person is classified as an immigrant when he/she has five consecutive annual renewals on his/her immigration permit and entered the country to:

+ Fill a management position in a Mexican company or institution.
+ Carry out work as a technician or scientist, research in production, technical or specialized functions in a Mexican Company or institution. The company or institution must meet all requirements concerning the hiring of foreigners.

Non immigrant

- Tourist

Tourists may not work or receive any remuneration under any circumstances. Tourist visas are good for stays of up to six months.

- Consultant

Consultants may obtain a permit to enter Mexico to attend a board or stockholders' meeting or to render advisory services on a temporary basis. To obtain the permit to work consultants must have submitted proof that a company has contracted their services and the company meets all requirements concerning the hiring of foreigners.

- Visitors

Permits of this category allow visitors to carry out specific work or a project and receive payment, whose source may be Mexican or foreign.

1.6 Economy Inflation

The Mexican inflation rate in 2011 was 3.82%, in 2012 was 3.56%, in 2013 was 3.97% and the forecast inflation rate for 2014 is 3.73%.

1.7 Imports and exports

Mexico Foreign Trade (Trade Agreements)

In the context of trade liberalization and reglobalization of markets, Mexico is the country with one of the higher levels of commercial involvement in the world. Currently, Mexico has signed 12 commercial treaties with about 44 countries, among which are included: USA and Canada (NAFTA); Colombia; Chile; Costa Rica; Nicaragua; Bolivia; Israel; the European Union; European Free Trade Association (EFTA) Guatemala, El Salvador and Honduras; and Japan. It also has trade agreements within the framework of the Latin American Integration Association (LAIA) with the following countries: Argentina, Brazil, Cuba, Ecuador, Peru, Paraguay and Uruguay.

In 1986 Mexico became formally a member of the General Agreement of Tariffs and Trade (GATT). The economic policy followed by former administrations has made Mexico one of the most open economies in the world.

In January 1994 the Mexican, the American and the Canadian governments implemented the North American Free Trade Agreement (NAFTA) and commercial transactions among the three partners have grown steadily.

In March 2000 Mexico signed a free trade agreement with the European Community effective on July 1st, 2000.

In addition, Mexico is an active participant in multilateral and regional organizations and forums such as the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), the Organization for Economic Cooperation and Development (OECD) and the Latin American Integration Association (LAIA).

Regulations on Imports

One of the most significant benefits is that there are virtually no restrictions on the importation of goods, except in some cases, certain products must pay additional or countervailing duties. Tariffs are determined according to the characteristics of the goods. There are mechanisms for imports that, for being temporarily in Mexico and then returning to their country of origin, do not pay taxes; and there are also certain benefit programmes for importers and exporters such as the so-called IMMEX (Manufacturing, Maquiladora and Export Service) that grant reductions, eliminations and tariff and tax benefits.

It is recommended that the advice and services of a customs broker be used for the proper management of paperwork for imports and exports.

Regulations for Exports

An important part of exporting is the customs clearance, which must be performed directly in the customs office, relating to goods leaving the country. To do this, the Mexican exporter shall submit to the Customs (aerial, interior, border or sea), through a broker, an export request that covers the export operation; likewise, the export taxes of these goods must be declared and settled.

Customs clearance should be done through a broker, who is legally authorized to act on behalf of the exporter. The fees that the broker charges for its services vary and are usually a percentage of the value of the goods for export, so it is recommended that before you apply, the fees and other ancillary charges are agreed between parties; for example, the procedures related to the customs clearance of the exported goods.

Exceptionally additional expenditure may be incurred for delays, administrative sanctions and special handling of goods; in these cases, the exporter should ask the broker to justify them in order to have full details of the costs attributable to their work.

A Customs Processing Fee (DTA) must be paid in each export operation. The broker or customs agent must be responsible to pay this fee and charge the cost to the appropriate account.

As another of the benefits of the Free Trade Agreements, those who export goods to the United States, Canada, Costa Rica, Chile, Colombia, Venezuela, El Salvador, Guatemala, Honduras, Israel, Nicaragua and Bolivia will not pay Customs Processing Fees, as well other subscribing countries in the future to Free Trade Agreements. In the case of the European Union and European Free Trade Association (EFTA), a reduced fee shall be paid as long as the exporters declare in the export request that the goods are originated from member countries and have the relevant Certificate of Origin.

In Mexico there is no requirement for exporters to be registered in any registry. Only those who export alcoholic beverages; beer; alcohol; cigars; mineralized waters; soft drinks hydrating and rehydrating drinks; concentrates, powders, syrups, essences or flavoring extracts, which diluted allow to obtain soft drinks, hydrating and rehydrating drinks; syrups and concentrates for preparing soft drinks that are sold in open containers using automated, mechanical or electrical equipment, must be registered in the "Exporters Sector Registry", which is maintained by of the General Administration of Customs of the Tax Administration Service of the Mexican Ministry of Finance and Public Credit (SHCP).

1.8 Business Hours' Time zone

Time zone

There are three time zones in Mexico: the Central zone, which is six hours behind GMT; North-Western States are seven hours behind GMT, and Northern Baja California is eight hours behind GMT. Mexico observes summertime from early April to late October.

Working hours

Business hours in Mexico generally range from 9:00 a.m. to 6:00 or 7:00 p.m. Monday to Friday. Lunchtime is usually at 2:00 p.m.

Large commercial banks are usually open from 9:00 a.m. to 4:00 p.m. Monday to Friday, though some branches are open until 7:00 p.m. In Mexico City some banks open on Saturdays from 9.00 a.m. to 1:30 P.M.

Business custom

Mexicans are very hospitable and warm, and some businessmen often close deals only when they can call their foreign counterparts friends. Business matters are often discussed and deals are closed over meals.

2. Investment Factors

2.1 Governmental policy and Majority foreign investment

Foreign direct investment is welcome in Mexico, especially if it promotes the export of goods and services, creates more jobs, increases abilities in new skills or production techniques, trains technicians and workers in a short period or helps maintain the stability of the exchange rate of the Mexican peso and the balance of payments.

Not requiring authorization

+ Foreigners are allowed to hold up to 100% of the capital stock of certain Mexican corporations without any previous authorization. Such companies may carry out operations in secondary petrochemicals, telecommunications installations, agriculture, and construction and the operation of electric power systems, which comply with the requirements established by the Law of Foreign Investment.

+ In-bond processing or manufacturing plants - Foreign investors may participate up to 100 percent in corporations established to carry out in-bond processing or other industrial or commercial activities for exportation. They can be established in US border areas or in interior cities. Foreign companies may conduct a manufacturing operation by subcontracting the manufacturing process to a company already existing in Mexico or by operating through a<<shelter company>> that exists solely to manufacture or assemble for its investors.

2.2. Labor regulations

The Federal Labor Law enacted in 1970 applies to all employees and companies and its regulations establish the prevailing labor relations environment. The law stipulates the minimum working conditions and rights, which must be granted by the employer to its work force. Relationships among workers and employers may be individual or collective.

<u>Minimum wage</u>

The authorized daily minimum wages effective from January 1st, 2014 in the two different geographical areas within the country are:

Daily Minimum Wages

	Mex $	**US dollars**	
Zone A	67.29	5.17	(including Mexico City - Metropolitan area and cities in the north border) *Ex. Rate $13.00 Mexican pesos
Zone B	63.77	4.90	

Unions sign collective contracts and negotiate wages and benefits directly with companies or institutions.

Mexico's labor costs are highly competitive. In 2014, hourly pay and benefits for an employee in Mexico are approximately 7 times lower than the US rates.

The normal working week in Mexico is 48 hours over six workdays. In the services sector, companies work 40 hours a week over five workdays.

Under Mexican labor law, workers must get double pay for the first nine hours of overtime, triple pay thereafter. Sunday work entitles workers to a 25°% premium.

After one year of employment, employees can enjoy at least six days' paid vacation adding two days for each of three subsequent years. After five years, two vacation days are added for. A bonus of 25% of normal pay during the vacation period is compulsory.

Employees and workers are entitled to an annual year-end bonus, which must equal at least 15 days of salary and must be paid before December 20. Seniority premium payment is 12 days per year of service. Additionally employees are entitled to profit sharing, which is 10% of the profit generated in the year, this must be paid no later than May of the following year, taking into account the days worked and salary received.

2.3 Practical Considerations

Mexico is a large and diverse country. Specific research is generally recommended before an investment decision is made. Below is an outline of three critical areas we believe any potential investor should pay particular attention to before any definitive decision is made. These include location, infrastructure, and state incentives.

a) The primary focus of many investors is location. This may be motivated by a need for proximity to the US border, by the location of a customer or supplier, by the availability of a specific resource, among others.

Manufacturing industry has encouraged the development of Border States such as Nuevo Leon, Coahuila, Chihuahua, Sonora, and Baja California. What is perhaps less well known is the substantial development of industrial resources catering to new investment in inland states such as Jalisco, Guanajuato, as well as Querétaro, roughly 130 miles north of Mexico City.

b) While the benefits of each of the above locations are largely dependent on the specific requirements of each investor, it is generally very difficult to invest in an area with substantial infrastructure deficiencies. Fortunately, all the sites mentioned above have modern industrial locations, with up to date communication capabilities, as well as access to banks and modern ground transportation. Larger urban areas such as Guadalajara and Monterrey have the advantages of better access to international airports, as well as other conveniences afforded by metropolitan areas, such as access to a more educated workforce, broader availability of high quality housing, as well as more diverse recreational possibilities.

c) The different states within the country compete intensely for foreign investment. These may offer different kinds of incentives to encourage specific types of investment. The states of Queretaro and Guanajuato have been lately distinguished for making generous concessions, demonstrating a better acquaintance with the needs of the foreign investor, in addition to providing fewer restrictions than those typically encountered in other Mexican States.

2.4 Foreign investment in Mexico

In general terms, foreign investment may participate in any share in the capital stock of Mexican companies, acquire fixed assets, enter new fields of business or manufacture new product lines, open and operate facilities and expand or relocate existing . The only sectors where foreign ownership is limited are strategic areas such as oil and other hydrocarbons, basic petrochemicals, electricity; nuclear power generation; radioactive minerals; telegraph; telegraphy; Post; Ticketing; Minting of coins and Issuance of banknotes; Control, monitoring and surveillance of ports, airports and heliports.

3. Types of Business Organizations

A foreign company or individual can do business in Mexico through an agent or legal representative, a branch or a corporation organized outside Mexico, or a subsidiary incorporated in Mexico.

3.1 Sole proprietorship

Mexican laws allow an individual to own and run a business. He/She must be registered with the Ministry of Finance and Public Credit and comply with all tax requirements. The individual may choose to file in either the simple or the general system of taxation. There is no minimum capital required. A foreign investor may do business as an individual through an agent or legal representative.

Under Mexican law, the following are the main forms of business entities:

3.2 Corporations

1. - Sociedad Anónima de Capital Variable or S.A. de C.V.

2.- Sociedad de Responsabilidad Limitada or S.R.L.

These two are the forms most commonly used by foreign investors; however it is important to highlight a reform on joint liability for shareholders, consisting in how this responsibility is determined for tax purposes, this will be calculated by multiplying the percentage of participation of the partner or shareholder in the capital stock subscribed at the time of causation, for the missed contribution, the part that fails to meet with company assets.

The responsibility referred to in this section will be applied only to the shareholders who have or have had effective control of the company, according to the contributions of the company when they had such control.

As a variant of the Sociedad Anónima, there is the Investment Development Company (SAPI), which allows shareholders to attract more private capital investment without thereby losing certain corporate rights.

3. - Joint Ventures - This type of association may include corporations or individuals and may be formed to carry on a common business objective.

All three types of associations are taxed as business corporations.

3.3 Constituting a Mexican Corporation

To establish a Mexican Corporation the steps are:

- Obtain Government authorization. At present, this authorization is quickly granted.

- Register with the National Registry of Foreign Investment.

Branches are subject to income tax and generally have the same obligations as Mexican companies. Additionally, they are subject to withholding tax if they pay dividends to individuals by 10% on dividends distributed as income tax.

- A permit must be obtained from the Department of Foreign Affairs.

- Two shareholders must appear before a notary public. The minimum subscribed capital which has to be contributed by the shareholders is $50,000. The responsibilities of the shareholders are limited for tax purposes. Taxes and contributions for an incorporation are: Public Registry of Commerce, Foreign Investment Registry (if applicable), Municipal Health and Licensing Treasury and Notaries' fees.

Shareholders' Assembly

A shareholders' meeting must be held at least once a year within the first 3 months of each year.

Sole administrator or board of directors

The shareholders, in a general meeting, may appoint a sole administrator or a Board of Directors with normal powers and the right to delegate power. This administrator or the directors may or may not be a shareholder. Administrators or directors may be foreigners living abroad, provided they do not represent a greater percentage than that of foreign ownership. Employees have no representation. Shareholders representing 25% of the share capital have the right to elect one director. Directors' meetings may be held anywhere.

Accounting Year-end

The year for corporations must end on December 31 each year, except in the case of the corporation's liquidation or closure.

Statutory requirements

Financial Statements

Corporations must prepare, within three months of the accounting year end a balance sheet, a statement of comprehensive income, a statement of changes in stockholders' equity, a statement of cash flow and the related explanatory notes to the financial statements.

Income tax filing

Mexican corporations must file an annual income tax return, no later than three months after the accounting year end.

The General Law of Trading Companies requires a Statutory Auditor that must examine, at least monthly, the books and records and submit a report on the company's year-end financial information. Statutory auditors can call shareholders' meetings whenever considered necessary. In fulfilling this responsibility, the statutory auditor may use the services of independent professionals.

3.4 Optional Audits

According to the Mexican Federal Tax Code, there is an option for the companies to carry out annual fiscal audits in the following cases:

a) Income - over 100 million Mexican Pesos
b) Assets - over 79 million Mexican Pesos
c) Personnel - over 300 employees

This will be increased in line with the inflation rate.

4. Taxation

4.1 Jurisdiction

Parameters to determine the income or profit subject to income tax.

Mexican resident corporations are subject to taxation on their worldwide income. Mexican resident corporations include those incorporated in Mexico as well as those who have established their place of effective management within it. Foreign corporations with permanent establishment in Mexico are also subject to Mexican corporate income tax on the income attributed to the permanent establishment.

Payments abroad such as interest, dividends and royalties are subject to a withholding tax. Income Tax Treaty countries are subject to preferential withholding rates.

4.2 Major taxes on corporations

<u>Income tax</u>

Corporations are generally subject to corporate income tax at a 30% rate applicable on revenues generated from subtracting from the total earnings the amount of tax deductions, on an accrued basis.

For individuals, the maximum rate is 35%, and may be less depending on the level of income received in the year. Distributions made by companies to individuals, are subject to an additional tax of 10%.

Corporation income tax payments are due monthly (advanced payments); and when the annual tax is determined, these advance payments are subtracted from the total and the difference is paid.

Value added tax

The overall rate of Value Added Tax is 16% on the basis of cash flows. VAT is a recoverable tax on companies when the amount of VAT paid in a month is more than the amount of VAT charged in the same month, otherwise the company must pay the amount of VAT charged that exceeds the VAT paid. However, a non-resident company must obtain registration with the tax authorities for VAT recovery.

Mexico has implemented special programmes to boost its export industry. Producers who are registered under IMMEX (Promotion of Manufacturing, Maquiladora and Export Services) with a requirement to have an Inventory Control System, allowing the staff of the General Administration of Foreign Trade Audit to perform the initial inspection or supervision, "meet the parameters of the customs procedure under which they perform foreign trade operations." This tax certification is established in categories: A, AA, AAA in order to apply a consistent tax credit in an amount equal to 100% of VAT and IEPS (Special Tax on Production and Services) for the temporary import of goods. Within these requirements are, among others, that the value of the merchandise returned represents a minimum of 60% of the value of temporary imports of inputs during the past 12 months. The application for certification in respect of VAT and IEPS, must be submitted during 2014.

Mandatory profit sharing

Mexican resident companies are required to pay annually 10% of taxable profit to employees. The payment of this obligation can be deducted from the profit of the Company from which income tax is determined.

4.3 Taxable Income to domestic corporations

Tax basis

The calculation of taxable income begins with gross income of which costs and expenses of the company are deducted to finally obtain taxable net profits which are subject to a 30% rate. The net operating losses can be amortized over a maximum of 10 years.

Dividends

Dividends received from other Mexican corporations are not taxed on those receiving them. In the case of dividends received from non-residents in Mexico, these increase the income subject to income tax.

Deductible expenses

Deductible expenses are those that are essential to the realization of the activity and at the same time meet certain requirements, including lost deductions for uncollectible accounts, transportation expenses, depreciation and amortization, interest expense, insurance premiums, rentals, repairs, research, royalties, wages, payroll taxes, food expenses and certain taxes, amongst other things.

Inflation accounting

In Mexico, inflation accounting is applied if, as an average during the last 3 years, inflation is over 26%. Assets and liabilities are subject to inflationary adjustments where a reduction in the value of liabilities as a result of inflation should be included in income and a reduction in the value of assets resulting from inflation can be deductible items from income.

Depreciation and amortization

Mexico generally permits only straight-line depreciation and amortization for tax purposes. The applicable annual rates for certain items are as follows:

Real Estate	5%
Office furniture & equipment	10%
Machinery and equipment (Specific rates vary depending on type)	10%
Electricity generation and distribution mills	5%
Carbon derivatives	6%
Pulp and paper products	7%
Manufacturing of motor vehicles and parts, metal products	8%
Leather products	9%
Textile products	11%
Aircraft construction	12%
Construction industry, including certain automobiles, cargo vehicles and tractor trailers	25%
Agricultural, livestock, fishing and related	25%
Restaurants	20%
Others	10%

Capital gains

Capital gains are taxed at the ordinary corporate income tax rate. All items on Mexican soil are generally subject to Mexican capital gains, even if held by a foreign resident taxpayer, unless this treatment is affected by a Treaty.

Deductibility of payments made to parent company

Payments made to parent companies are subject to strict scrutiny by the Mexican tax authorities. Any deduction will be disallowed in the absence of adequate support.

Transfer pricing legislation

Mexican tax authorities also pay close attention to the pricing adopted for charges between related parties in an international setting. Mexico has adopted transfer pricing rules that closely mirror model OECD rules.

Credit for foreign taxes

Mexico allows taxpayers to credit foreign income taxes paid against Mexican corporate income tax due on the same income. Consequently, a Mexican corporation that receives dividends from a foreign resident corporation may credit foreign taxes associated with the dividends. The corporation must comply with specific rules and proportional amounts and crediting limit per country and year end; it needs to have a specific control to identify to which years the dividends correspond to.

4.4 Taxable Income of Resident Corporations

Taxation of permanent establishments

A permanent establishment is a level of presence in Mexico that is subject to corporate income tax even though the entity is not a Mexican resident. Such presence generally includes branches and representative offices, among others. These activities are subject to a standard rate of 30%, as is applied to income of a permanent establishment.

Not all presence by a non-resident in Mexico qualifies as a Permanent Establishment. However, Mexico has stringent domestic rules for permanent establishment classification. Residents of treaty countries, on the other hand, are subject to permanent establishment classification rules as determined by the relevant treaty in question.

4.5. Reorganization

Mergers and consolidation

Mexico generally permits a limited tax-free merger and consolidation pursuant to a plan submitted to and approved by the tax authorities. Additionally, Mexico also allows a limited form of tax consolidation and a plan must be submitted and should be approved by the tax authorities before the consolidation is allowed.

4.6 Taxation of Shareholders (Corporations and Individuals)

Interest and royalties, amongst other items paid by a Mexican resident corporation to non-residents will be subject to the appropriate withholding tax applied either by domestic legislation, or, if applicable, by a treaty. Internal rates for retention on interest and royalties are of 21% and 25%, respectively. Other items that may be subject to withholding tax include independent personal services and rents, among others. Shareholders with residence in a country where a treaty is in place are subject to rates established by treaty, which generally brings more benefit than the internal rate.

Dividends paid by a Mexican resident corporation to non-residents are not subject to withholding tax when it complies with the requirements that the Law of Income Tax establishes in some cases. However, Mexico subjects income that has not been previously taxed in Mexico to a punitive tax at the time it is paid to a foreign shareholder in the form of a dividend. This tax is calculated by applying a rate of 30% to 1.4286 times the dividend amount.

Capital earnings

If there is profit, an individual's sale of stock shares listed on the Mexican Stock Exchange are taxed of income tax at 10%.

Assets deemed to be located in Mexico are generally subject to Mexican capital gains treatment, even if owned and sold by a non-resident. The capital gains rate is variable because it depends on the course to occur while obtaining income, so it is necessary to analyze the source of wealth to identify the rate that applies. This rate may be modified by the provisions of a treaty.

Taxation of domestic shareholders of foreign corporations

Foreign dividends paid to Mexican resident shareholders are generally taxed at the applicable corporate or personal income tax rate. Capital gains on foreign shares are also subject to Mexican capital gains taxation at the applicable rate.

The tax basis is subject to inflation adjustments. Mexico exempts certain stocks traded on Mexican equity markets from capital gains.

4.7 Returns

All taxpayers in Mexico must use the calendar year as a tax period. An annual statement must be submitted within the first three months of the subsequent year. Interim payments are calculated based on the taxable income for the previous year end on the most recent year with taxable earnings provided that it was within the last 5 years.

The statute of limitations for tax audits is up to ten years. Penalties and interest can be imposed for the period comprised between the submission date of the statement and the assessment date by tax authorities.

4.8 Investment Incentives

Mexico provides tax incentives for export oriented manufacturing operations under IMMEX regime. This programme generally provides customs and VAT advantages, but corporations are not afforded significant income tax benefits over ordinary Mexican corporations.

4.9 Prevention of Money Laundering

Mexico is part of the international Financial Action Group created by the UN to prevent money laundering and terrorist financing, so there are certain obligations to send information.

4.10 Other significant taxes

Payroll taxes include social security contributions at a rate of 4.80% for the employee and 26% for the employer. The employer is also subject to 5% contributions to the employee housing fund, and 3.15% contributions to the employee retirement fund and 2% contributions to the Retirement Savings System (SAR). Additionally, in some Mexican states there is a salary tax between 2.5% and 3%.

There is a state tax levied on real estate transactions. The tax generally applies to the buyer and the rate varies from state to state.

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