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MEXICO

BUSINESS TAXATION GUIDE

CONSULTING
AUDIT
TAX
ACCOUNTING

CONTENTS

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Paseo de la Reforma No. 295 Piso 9 Col. Cuauhtemoc Deleg. Cuauhtemoc C.P. 06500 México D.F.

1. GENERAL INFORMATION

GENERAL INFORMATION

Main Geographic Data

Mexico has the coordinates 23°North, 102° West. Its borders are at the east the Caribbean Sea and the Gulf of Mexico, at the west the Pacific Ocean, at the North the United States and at the south Belize and Guatemala.

The total area of the country is 1,964,375 square kilometers with 1,943,945 square kilometers of land and 20,430 square kilometers of water.

Mexico has 9,330 kilometers of coastline and 12 nautical miles of territorial sea and 200 nautical miles of exclusive economic zone.

The climate varies from tropical to desert from south to north and the terrain is very diversified with high points, rugged mountains, coastal plains, desert, forests and some jungles.

Population

As the latest population census (2010), the population is 113,724,226 people structured by ages in 28.2% (0-14 years), 65.2% (15-64 years) and 6.6% (65 years and over).

From the total population, 78% is urban population and the rest is rural population.

In terms of population, the major cities of the country are Mexico City (19,319 million), Guadalajara (4,388 million), Monterrey (3,838 million), Puebla (2,278 million) and Tijuana (1,629 million).

The population has a mix of several ethnic groups like mestizo (amerindian-spanish) 60%, amerindian 30%, white 9%, other 1%.

BY GENDER, THE POPULATION OF MÉXICO

IS COMPOSED BY

51% WOMEN

49% MEN

ECONOMIC OUTLOOK

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100 MILLION COSUMERS

12 FREE TRADE AGREEMENTS WITH 44 COUNTRIES

40 TAX TREATIES

FOREIGN DIRECT INVESTMENT

- United Sates
- Spain
- The Netherlands
- Canada
- Germany
- France
- UK

Mexico has a privileged geographical position for international trade, an attractive market of over 100 million consumers, and a good investment climate for foreign investment.

As a consequence of this international exposure, Mexico has signed 12 free trade agreements with 44 countries and over 40 tax treaties with its major trade and investment partners. These agreements have eased the way multinational companies conduct business in our country.
Today, the United Sates, Spain, the Netherlands, Canada, Germany, France and the UK are among the main source of foreign direct investment in our country.

Within the emerging economies of Latin America, Mexico occupies a prominent place with economic sectors well diversified and has highly developed industries such as mining, manufacturing, petroleum, electronics, textiles and tourism.

Mexico exports cars to transport people and cargo, machinery parts, machinery for information processing, automobile, chemicals and manufactured of aluminum.

Recently, the economic crisis originated in late 2008, has seriously impacted the Mexican economy due to the extraordinary commercial dependence and high correlation on economic performance with the United States, since is the recipient of 85% of Mexican exports and source of more than 50% of Foreign Direct Investment (FDI).

In 2009 Mexico suffered its worst crisis in 70 years stating a decrease of 6.5%on the GDP, resulting in the bankruptcy of 500,000 small and medium enterprises and the dismissal of a million and a half workers.

However, the GDP for 2010 showed a 5% growth as a result of the performance of the Mexican exports that record an increase of 34% compared to the same period of 2009.
The International Monetary Fund (IMF) predicted strong growth in Mexico to 4.5% in 2011 and 4.1 percent in 2012, with an upturn in domestic demand ahead of presidential elections in July 2012.

The OECD also said that given the slowdown in inflation, monetary policy can support the recovery by holding down the key interest rate in the short term.

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FREE TRADE AGREEMENTS

As a liberal and open economy, Mexico has signed 12 free trade agreements with 44 countries:

MEXICO'S FREE TRADE AGREEMENTS

- UNITED STATES AND CANADA
- COLOMBIA AND VENEZUELA
- COSTA RICA
- BOLIVIA
- NICARAGUA
- CHILE
- EUROPEAN UNION
- ISRAEL
- GUATEMALA, SALVADOR AND HONDURAS
- ICELAND, NORWAY, LIECHTENSTEIN AND SWITZERLAND
- URUGUAY
- JAPAN

DIRECT FOREIGN INVESTMENTS

Mexico is the second major destiny of Foreign Direct Investment (FDI) of Latin America after Brazil. The FDI to Mexico is coming mainly from USA, Spain and Canada. The resources of the FDI are oriented to the industrial and service sectors of the Mexican economy.

FDI 2007- 2010

COUNTRY	MILLIONS
UNITED STATES	$35,708
SPAIN	$14,337
CANADA	$6,261
UNITED KINGDOM	$2,746
GERMANY	$1,562
JAPAN	$971
FRANCE	$786
BRAZIL	$608
SWEDEN	$478
CHILE	$183
CHINA	$57

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2. REGULATION OF FOREIGN INVESTMENT

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REGULATION OF FOREIGN INVESTMENT

MEXICAN GOVERNMENT HAS A PROACTIVE ATTITUDE TOWARDS FOREIGN INVESTMENT AND, IN GENERAL, PROVIDE A REGULATORY FRAMEWORK TO ATTRACT DIRECT FOREIGN INVESTMENT.

In general, Mexican entities can have total ownership from foreign equity or stockholders. Exceptions include some industries protected by the Mexican government (from 0% to 49% or foreign participation) such as oil, electric and nuclear power, telecommunications, ground transportation of passengers, public radio and TV, air transportation, insurance, newspapers, agriculture, and maritime cargo transportation.

Investments in mobile telecommunication, insurance brokerage, legal services should be approved by the ministry of economy previous foreign ownerships accounts over 49%.

"MEXICAN GOVERNMENT HAS A PROACTIVE ATTITUDE TOWARDS FOREIGN INVESTMENT"

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3. GOVERNMENT INCENTIVES

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GOVERNMENT INCENTIVES

SEVERAL STATES IN MEXICO OFFER INCENTIVES FOR FOREIGN INVESTORS WHO WANT TO ESTABLISH BUSINESSES WITHIN THE STATE, SUCH AS EXEMPTIONS FROM CERTAIN LOCAL TAXES AND DISCOUNTS ON OFFICIAL REGISTRATION FEES. IN ADDITION, STATES MIGHT GRANT INCENTIVES THROUGH REDUCTION ON LAND ACQUISITION AND PROPERTY TAXES FOR INVESTMENT IN TARGETED INDUSTRIES.

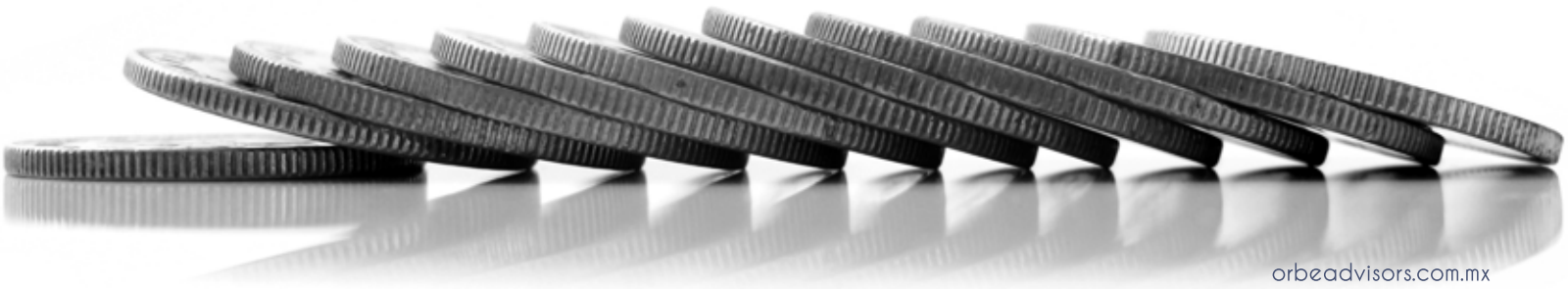
TAX INCENTIVES

1. The tax code provides benefits such as immediate deductions for investment, the hiring of people with disabilities, and investment in real estate developments, amongst others

2. Tax Payers may elect to accelerate depreciation rates on new fixed assets acquired. The maximum percentages to deduct in the year the asset is purchased or used range from 63% to 96%. The balance would be depreciated at the normal rate according to the type of asset.

3. Agricultural activities have a reduced income tax rate by practically 50% of the current rate.

4. The Mexican government has enacted a decree where tax payers can increase the deduction taken from hiring employees for their first formal job.



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4. BUSINESS ORGANISATIONS AVAILABLE TO FOREIGNERS

BUSINESS ORGANISATIONS AVAILABLE TO FOREIGNERS

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The most common way for domestic and foreign investors to operate in Mexico is through an S.A. It may adopt the form of a fixed capital company or that of a variable capital company ("S.A. de C.V.").

The main difference between a fixed capital company and a variable capital company is that the latter may increase or decrease its capital with fewer legal formalities.

The following are the most common structures to perform business activities in México:

S.A.

1. Sociedad Anónima.

This figure provides limited liability to its shareholders (at least two). A manager or board of directors may run the company for legal purposes. The shareholders are the ultimate decision-making authority of the company.

These entities are limited liability stock corporations, which liability is limited up to the amount of its capital. A minimum 2 stockholders and 50,000 pesos in capital are required for incorporation. Shareholders can be either foreigners (individuals or companies) or Mexican –or a mix of both.

A Sociedad Anonima de Capital Variable can increase or decrease its capital contributions with a mere shareholders meeting. These entities can go public.

S.D.R.L

2. Sociedad de responsabilidad limitada.

Like a a limited liability company, the partners' liability is limited to the amount of their contribution. Since the S.R.L., appears to be similar to limited liability partnerships in the United States (L.L.C.); some observers comment that they may be considered partnership for U.S. tax purposes.

A.C S.C

3. Partnerships.

There are two types of civil associations: the "asociación civil" (A.C.) in which the partners decide to carry out a common purpose without a preponderantly economic objective; and the "sociedad civil" (S.C.) by which the partners join their resources and efforts to achieve a common purpose, which might have an economic objective (professional services).

BUSINESS ORGANISATIONS AVAILABLE TO FOREIGNERS

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S.enC.

Sociedad en comandita simple.

Like a limited liability partnerships (L.L.C). One or more partners are liable for the company's obligations, and one or more partners having limited liability up to their contributions.

Cooperative Companies. Is a type of company integrated by individuals who join their interests and efforts with the purpose of satisfying their individual and collective needs through the realization of economic activities.

Branches.

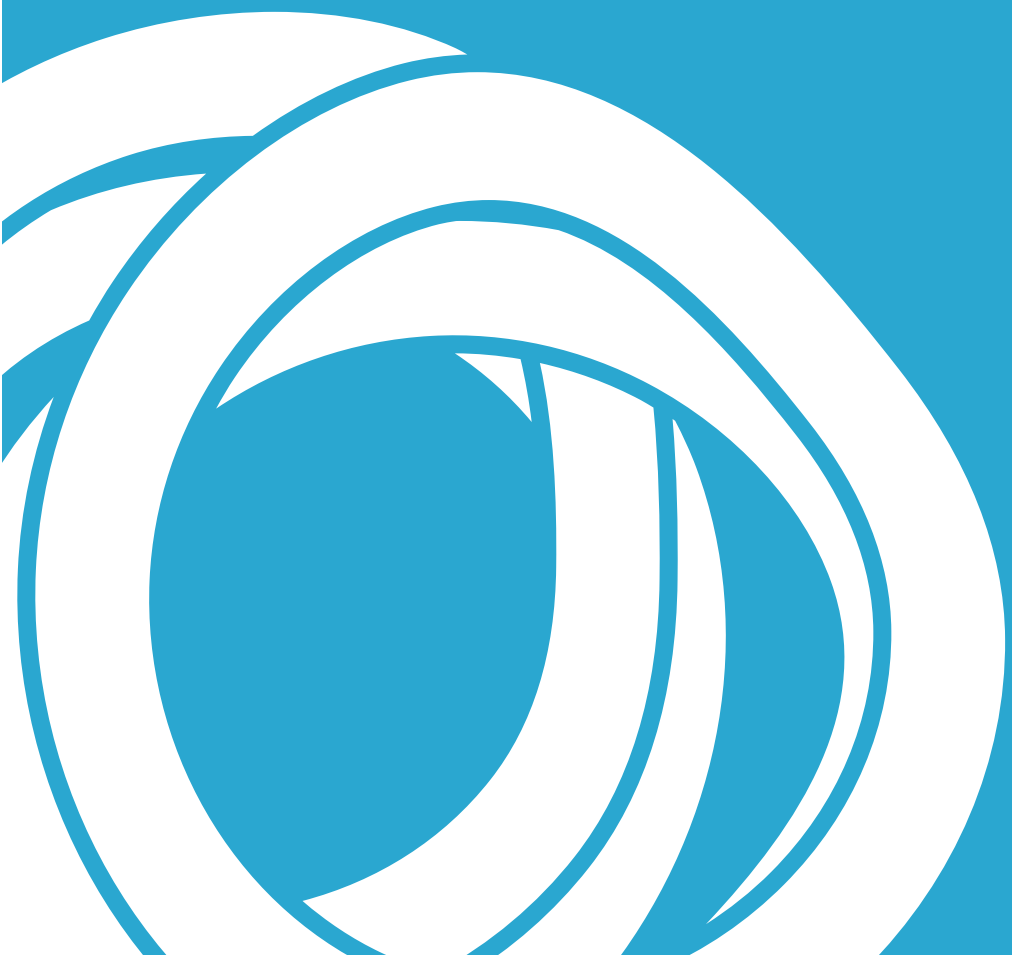
Foreign companies are legally recognized in Mexican law, but retain their liability characteristics from abroad. To start operating as a branch, approval from the Foreign Investments Commission, Ministry of Foreign Relations, and registration at the Public Registry of Commerce are needed. Branches are treated as a permanent establishment from the tax perspective. The branches obligations are the same as the parent, including bookkeeping, tax returns, employee obligations, so there are few advantages in administering a branch.

A.P.

Join-Ventures.

Joint Venture agreements (Asociaciones en Participación) are legally recognized only as contracts (in the same way as trusts), but are treated like an entity for tax purposes. Normally one or more partners provides goods, services or resources to an operating partner and profits are then shared accordingly. Joint Ventures must obtain a tax id, file tax returns and have and individualized book records. Tax payers might unintentionally set up a regular contract that falls under JV tax rules.

5. SETTING UP AND RUNNING BUSINESS ORGANISATIONS



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SETTING UP AND RUNNING BUSINESS ORGANISATIONS

BESIDES THESE SPECIFIC SECTORS, FOREIGNERS SHOULD COMPLY WITH THE SAME TAX, LEGAL, LABOR, ENVIRONMENTAL AND OTHER REGULATIONS SET FOR COMPANIES OR INDIVIDUALS CONDUCTING BUSINESS IN MEXICO. ONE MINOR DIFFERENCE WOULD BE THAT COMPANIES WITH FOREIGN OWNERSHIP MUST FILE AN INFORMATIVE RETURN ON THE AMOUNT OF FOREIGN INVESTMENT AT THE END OF THE YEAR.

All types of entities, except branches, require at least two shareholders for incorporations. All incorporations must be through a public notary. The basic document is an incorporation act (deed) that is usually drafted by a public notary. Within the incorporation act, the shareholders must either appoint a sole administrator or a board of directors. This decision does not make tax difference. Foreign administrator or directors, acting in Mexico need a migratory permit, otherwise any shareholder meeting can be challenged

Within the deed, the shareholder can assigns powers of attorney to official within the company, at least one person would need to be appointed aa legal representative for tax purposes. Also, a statutory examiner (comisario) must be appointed; normally the statutory examiner would be the independent auditor.

In the incorporation act, shareholders must define the initial capital contribution. Most entities are required to have a minimum initial capital, however the amount are quite low –starting at $300 USD.

Newly incorporated entities must designate a tax domicile within the country: a physical location that will be validated by a tax agent.

Legal books include: shareholders meetings book (normal and extraordinary) and stockholders registry book.

The following are the main obligations for an incorporated company or branch in Mexico:

- *Bookkeeping and accounting records in Spanish.*
- *Provide and demand customers and suppliers with complying digital invoices.*
  - Annually submit the following tax returns for information purposes:
  - Income tax withholdings due to professional services and land leasing
  - Income tax withholdings due from payments to foreign entities.
  - Income tax withholdings due from payroll.
  - Financing activities with foreign entities.
  - Main clients and suppliers disclosure
  - Related party transactions
  - Paid dividends
  - Trust related transactions
  - Payments to foreign entities
- *Monthly (advance) payments of flat rate tax, income taxes, VAT and any withholding tax.*
- *File annual tax return on federal taxes*
- *It is also required to have an independent tax audit if:*
  - The entity sold in the previous year over US $2,600,000; or
  - The entity had assets over US $ 5,000,000; or
  - The entity had employed 300 or more persons during the last year.
- *If the entity has employees:*
  - Monthly payments of Social Security and "Housing Funds" taxes.
  - Calculate and pay Profit Sharing to Employees (10% of net income)

PROCEDURES TO SETUP A COMPANY APPLICABLE TO FOREIGN

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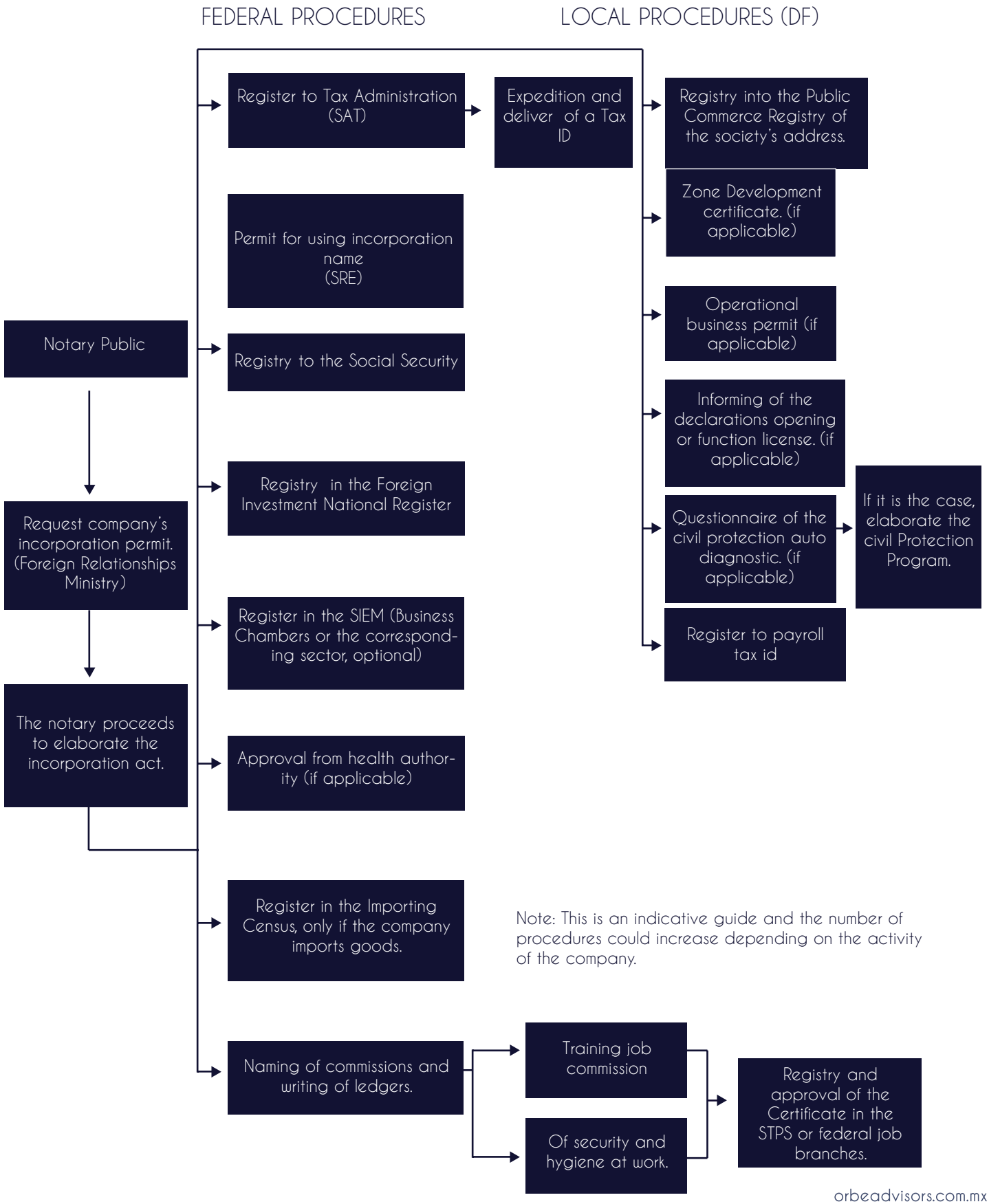

Note: This is an indicative guide and the number of procedures could increase depending on the activity of the company.

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6. CORPORATE TAXES AND SOCIAL CHARGES

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CORPORATE TAXES AND SOCIAL CHARGES

TAXES ARE LEVIED ON TAXPAYERS AT FEDERAL, STATE AND MUNICIPAL LEVEL. THE MOST RELEVANT FEDERAL TAXES THAT COMPANIES AND INDIVIDUALS FACE ARE INCOME TAX, FLAT RATE TAX, VALUE ADDED TAX, EXCISE TAX AND CASH DEPOSITS TAX.
GENERAL STATUE OF LIMITATION IS 5 YEARS AFTER THE FILING OF THE TAX RETURN.

Income Tax System

Mexico has a flat corporate tax rate of 30% on net profit. This rate will be decreased in 2013 to 29% and to 28% from 2014 and beyond. Reduced rates (48%) apply for special industries such as agriculture, cattle raising, and fishing.
Items considered as income, among other, are: revenues, inflation adjustment, exchange rate earnings, interest earned.

Items considerate as tax deductions, among other, are: cost of goods sold, business expenses, depreciation, interest paid, inflation adjustment.

An annual income tax return must be filed by March 31 of the following year. Fiscal year is from January 1st to December 31, without option of modifying it.

Net Operating Losses

NOL's can be carry forward for 10 years. In case of a merger, only losses of the merging company will remain. If two companies within the same industry (activity) merge, the balance of carry forward losses can also be merged.

Capital Gains

Proceeds from the sale of stocks, real estate, trust certificates and similar investments are taxed at the same corporate rate of 30% on the net gain. In case of foreign residents, the Mexican legislation request an independent auditor to file a tax report in order to be able to tax only the net gain of the transaction and avoid a withholding on the gross proceeds.

Maquiladora Regime

Maquiladoras is an specific tax regime authorized to Mexican companies (through the IMMEX Decree) that entitles them to receive certain beneficial customs and tax treatment. Maquiladoras normally import inventories and PP&E, property of a foreign resident, on a temporary basis (i.e., without owning such goods). Maquiladoras have safe harbour rules that protect the foreign resident from having a Permanent Establishment in Mexico. Maquiladoras are exempt from paying custom duties and Value Added Tax upon importation of temporary products. In addition they may opt to pay income tax in one of two alternative ways: (1) safe harbour, or (2) applying transfer pricing. In either case, the effective income tax rates applicable to maquiladoras are lower than the general Mexican corporate tax rates.

Safe harbor

Maquiladoras opting for safe harbor are required to pay income tax on the greater of either (1) the total value of assets used in the maquila activity (including foreign owned assets) times a factor of 6.9%, or (2) total costs and expenses times a factor of 6.5%.

Furthermore, a Presidential decree published in October 2003 allows taxpayers operating as maquiladoras under the maquiladora figure to reduce their income tax by an amount equal to the difference between (1) the tax base determined under safe harbour rules (assets or total costs and expenses) times the 6.5% or 6.9% factor, and (2) the same base applying a 3% factor.

A maquiladora must comply with rigorous controls of its customs activities. Maquiladora programs are approved for specific products and specific periods of time. If taxpayers fail to comply with such controls, the tax authorities may either impose fines on the company or terminate the company's maquiladora programs, causing major operating disturbances

such as cessation of import and export activities until regularization.

Transfer Pricing

Multinational companies doing business in Mexico must observe transfer pricing regulations since 1997. Local legislation is based on the OECD guides.

In addition, local groups must also comply with arm's length standard, forcing Mexican intragroup transactions to have transfer pricing documentation.

Tax authority is specially sensitive to companies having recurring losses in controlled transactions, substance-less corporative restructuring such as companies without assets or newly created distributors, sale of intangible property, and payment of (management) services to foreign related parties without proper evidence that service was rendered.

Independent auditors are required to disclose lack to compliance with transfer pricing rules.

Single-Rate Business Tax (IETU)

This tax takes the place of the asset tax as an alternative control measure for the income tax, with effect from January 1, 2008. The key aspects of this tax are:

The tax is determined on a cash basis; income is included as it is received and deductions are recognized as they are paid.

The general mechanics of the tax calculation is includible income less allowable deductions. The tax is computed by applying a 17.5% rate.

The single-rate business tax is an alternative minimum tax with respect to the income tax, payable when it exceeds the income tax for the same year.

The tax is payable by resident individuals and entities and by nonresidents with a permanent establishment in Mexico, on their worldwide income.

The tax does not apply to nonprofit entities as defined in the Income Tax Law (such as scientific, political and cultural associations and societies with certain exceptions), chambers of commerce, and authorized recipients of deductible donations, among others.

Ietu tax is imposed on income proceeds from the sale of goods, performance of services and the temporary use or enjoyment of property (leasing). Ietu tax is based in cash flow, and enhance payment is triggered upon collection of income and deductions are allowed upon payment to suppliers.

Tax free-benefits paid to employees, interests and royalties paid to related parties are non deductible for Ietu and constitute the main difference, besides cash flow, with Income Tax base. Stocks are not taxed by Ietu.

Social Charges

All employers are required to register their employees at the Social Security Institute and pay the monthly fees applicable to the individual. Part of such payments are levied on the employers and part of it on the employee.

Overall, social charges of employees can reach from 25% to 35% of its nominal salary. Mandatory benefits are Social Security (Health Care) Retirement Savings, Housing Fund (Infonavit).

Additionally, payments for vacation premiums, year-end bonus and other miscellaneous benefits should be paid to employees as a minimum legal requirement.

Severance payments occur if a contract is terminated for reasons attributable to an employer; it is calculated as three months' of salary plus 20 days' salary for each year of service.
The Social Security Institute mandates an independent audit from a Certified Public Accountant for companies having over 300 employees. Below this threshold, employers can opt to perform this audit and ensure full compliance of social security regulations.

Profit sharing to employees

As per the Federal Labour Law, employers must distribute 10% of its profit among employees. This payment should be done 5 months after the end of the year at the latest.

7. PERSONAL TAXATION

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PERSONAL TAXATION

Individuals are taxed from income derived on the rendering of personal services (salary), leasing of real property, sale of property (including stocks or real estate), acquisition of property (heritage and legacies), entrepreneurial activities, dividends (and similar profits), interest, and prizes. In general, deductions include medical bills, funeral expenses, and donations. Further deductions are approved for individuals with entrepreneur activities.

Income tax rate from individuals range from 2% to 30% as a maximum rate. The rates are progressive and ascendant in relation to the annual income of the individual, according to the following bracket:

INCOME LOWER LIMIT	INCOME UPPER LIMIT	FIXED TAX	% OVER LOWER LIMIT
$ 0	$ 5,953	$ -	1.92%
$ 5,953	$ 50,525	$ 114	6.40%
$ 50,525	$ 88,793	$ 2,967	10.88%
$ 88,793	$ 103,218	$ 7,131	16.00%
$ 103,218	$ 123,580	$ 9,439	17.92%
$ 123,580	$ 249,243	$ 13,087	21.36%
$ 249,243	$ 392,842	$ 39,929	23.52%
$ 392, 842	AND ABOVE	$ 73,703	30.00%

Individuals must file an annual tax return by April of the following the year the income was obtained.

Individuals are also required to pay letu on income obtained from rendering professional services, leasing and sale of property at flat rate of 17.5%

Tax residence is determined on the actual domicile of the individual. If a foreign resident moves its domicile to Mexico (even if it is on a non permanent basis) should register himself as a Mexican taxpayer.

8. DOUBLE TAXATION AGREEMENTS

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DOUBLE TAXATION AGREEMENTS

Mexico has a vast array of double taxation treaties and the government continues on negotiating with new jurisdictions. Court resolutions have ruled that treaty benefits are above federal regulation in spite of the tax burden locally established.

However, to summon the benefits of an international treaty, Mexican taxpayers must comply with proper support and documentation such as invoices, contracts and book records, in addition the foreign company should supply a certification of tax residence in order to apply the preferential rates established on the treaties.

Currently, Mexico has over 40 treaties to avoid double taxation signed with:

AMERICA

Bahamas, Barbados, Brazil, Canada, Chile, Ecuador, Panama, Uruguay, and USA.

EUROPE

Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxemburg, Netherlands, Norway, Poland, Portugal, Rumania, Russia, Spain, Slovenia, Sweden, Switzerland, and UK

ASIA, AFRICA AND MIDDLE EAST

Australia, Corea, China, India, Indonesia, Israel, Japan, Singapur, and South Africa.

COUNTRIES PENDING TO APPROVE TREATIES AFTER FINALIZING NEGOTIATIONS:

Bahrain, Colombia, Costa Rica, Hungary, Kuwait, Peru, and Venezuela

COUNTRIES WITH TREATIES UNDER NEGOTIATION

Aruba, Belize, Gibraltar, Hong Kong, Iceland, Latonia, Lebanon Lithuania Malaysia, Malt, Monaco Morocco, New Zealand, Nicaragua, Pakistan, Qatar, Turkey, Thailand, and Ukraine.

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9. SALES AND USE TAXES

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SALES AND USE TAXES

UNDER MEXICO'S VALUE ADDED TAX LAW (VAT), THE SALE OF GOODS AND SERVICES, AND THE IMPORTATION OF GOODS ARE TWO SEPARATE VALUE ADDED TAXABLE EVENTS. VAT IS A FEDERAL TAX, NO OTHER SALES OR USE TAX IS IMPOSED BY STATE OR LOCAL GOVERNMENT.

VAT (VALUE ADDED TAX)

As a general rule, a rendering of services or a sale with delivery of products within Mexico is subject to VAT. In such cases, the seller of the goods must collect the tax and remit it to the Mexican tax authorities. If a Mexican business is the importer, an input VAT credit can be claimed as an offset against the VAT it charged its customer.
VAT rate is 16% countrywide, with the exception of the border zone (11%). Since VAT is triggered on cash flow, payment is required upon actual collection from clients.

Value added taxation on importation is levied on the importer of the goods and is paid by it upon payment of the import duties.

Since all companies are subject to VAT for either imported goods, or goods sourced locally, VAT rules on importation do not constitute by themselves as competitive issues regarding pricing.

Some products related to the food industry, medicines, land and building for residential purposes, books and newspapers, and interests paid to financial institutions are VAT free, as well as exportation of goods and services.

VAT FREE

When VAT paid to suppliers and services providers is higher than the VAT charged to clients, the balance can be requested as reimbursement to the tax authority. Alternatively, this balance might be used to offset other federal taxes.

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10. PORTFOLIO INVESTMENT FOR FOREIGNERS

PORTFOLIO INVESTMENT FOR FOREIGNERS

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Under current Mexican law and regulations, there is no basis for the Mexican tax authorities to impose taxes on income realized by a nonresident holder from sale of shares registered in the Mexican Stock Exchange or in any other securities exchanges or markets approved by the Mexican Ministry of Finance.

Sales or other dispositions of shares carried out in other circumstances (private companies) are subject to Mexican tax, either through a withholding on the gross proceeds at a 25% rate or taxed on the net gain at a rateof 30%. Exceptions apply to the extent that a foreign resident is eligible for benefits under an income tax treaty to which Mexico is a party.

Pursuant to the Mexican Tax Treaty Model, gains realized by foreign resident which is eligible to receive benefits pursuant to the Tax Treaty from the sale or other disposition of shares will not be subject to Mexican income tax, provided that the gains are not attributable to a permanent establishment or a fixed base in Mexico, and further provided that such foreign resident owned less than 25% of the shares during the 12-month before the sale.
Dividends are taxed at corporate level and not at individual level; therefore all dividends distribution will not be subject to Mexican withholding tax.

Interest from corporate bonds or similar instruments are subject to a withholding of 0.85% on the amount of the principal. Bonds and paper issued by the federal government might be free of any withholding.

"THERE IS NO BASIS FOR THE MEXICAN TAX AUTHORITIES TO IMPOSE TAXES ON INCOME REALIZED BY A NONRESIDENT HOLDER"

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11. TRUSTS

TRUSTS

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TRUSTS, CALLED FIDEICOMISOS IN SPANISH

Trusts, called "fideicomisos" in Spanish, are very flexible contracts governed by the federal General Law of Titles and Operations of Credit. A trust is created when a trustee dedicates property to a particular lawful purpose, which may be either for private or public benefit. The trustee designates a fiduciary institution, which must be authorized to carry out this purpose as fiduciary (normally a commercial bank).

COMMONLY FOUND TRUSTS ARE AS FOLLOWS:

INVESTMENT TRUST
Under this type of tust, the fideicomitente transfers assets or rights to the fiduciary, for him to invest them and then give them back to the fideicomitente or the fideicomisario at the end of the fideicomiso together with the outcome of the investment. Generally, in these fideicomisos, the fideicomitente is also the beneficiary. The fideicomitente is looking for his money to be productive and to get as much profits of the investments as possible throughout his lifetime as fideicomisario. "The fiduciary accomplishes his task when it makes the investment by means of the acquisition of assets, which generate a return on capital; such as fixed or variable income instruments, treasury bonds, obligations of common or preferential shares on companies.

MANAGEMENT TRUST
The fiduciary manages the assets (usually real estate assets) transferred to him by the trustee, in accordance with the provisions of the agreement. Usually it is the trustee who is the beneficiary of these trust. The purpose of this trust is to transfer all the daily and active work of the real estate property to the fiduciary, such as: rentals, payment of expenses, taxes and generally keep it in favor of the trustee.

GUARANTY TRUST
The trustee transfers the legal title of certain assets or rights to the fiduciary, with the purpose of guarantying the fulfilment of an obligation towards a creditor (who is appointed as beneficiary) and its priority over the corresponding payment.

ENTREPRENEURIAL TRUST
A trust created to perform business or commercial activities in behalf of the trustees. In these trust trustees grant goods or fund to perform commercial activities under the name of the trust. The benefits of the entrepreneur can be either returned to the trustees or forwarded to the beneficiaries.

TRUST AS VEHICLE ACQUIRE REAL ESTATE PROPERTY
The Mexican Laws forbids foreigners to acquire property within 100km from the border (north or south) or within 50 km from any shore. Using a trust, foreigners are allowed to purchase the right to use the property, even though they cannot gain the title to that land.

Entrepreneurial trusts are treated as regular taxpayers and regular tax regime applies to it. In general, trusts are transparent entities and tax regulation applies to trustees; however, the trust is forced to comply in behalf of the trustees of any tax requirement. As such, in practice, trusts are required to comply with all applicable requirements of its trustees and beneficiaries, including accounting records, tax return filing, tax audits, etc.

OTHER TRUST FIGURES
FIBRAs are trusts modeled after investment vehicles used in other, such as the Real Estate Investment Trusts or "REITS" used in the USA. These types of instruments have enabled taxpayers to participate in real estate projects with a beneficial tax regime.

FICASs are trust based funds with special tax benefits created to develop venture capital investments in Mexico. These trust funds have to invest at least 80% of their assets in Mexican non listed companies, either by acquiring capital or debt.

12. PRACTICAL INFORMATION

PRACTICAL INFORMATION

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Transport

Mexico has international airports in the major cities and local airports that maintain the overall country connected. The main airports measured by aerial traffic are Mexico's City Benito Juarez, Monterrey International Airport and Guadalajara's Miguel Hidalgo International Airport. Most of the principal international airlines have destinations to Mexico City.

Mexico also has 360,000 Km of roads, and every small city can be reached by car or bus, however, most commercial, industrial and business locations country wide are better reached by plane.

Language

The official language is Spanish, spoken by 97% of the population, but in major cities and in business environment, large portion of the population speaks and understand English. Some remote zones do have predominance of indigenous languages, like Mayan or Nahuatl.

Time Relative to Greenwich Mean Time

Mexico uses two time zones, the central time zone and the pacific time zone. The central time zone is 6 hours behind the GMT and the pacific time zone is 8 hours behind the GMT. Mexico City is within the central time zone.

The entire country observes the daylight saving time.

9 am - 7 pm

Business Hours

Regular business in Mexico is conducted between 9 am to 7 pm. Lunch is usually around 2 pm, long business lunch is conducted on a regular basis. Most business offices are closed Saturday and Sunday.

Public Holidays

The holidays observed by law are:

New Years Day, January 1st
Constitution Day, February 5th (or closest Monday)
Benito Juárez birthday, March 21st (or closest Monday)
Holy week (Thursday and Friday), usually the last week of march or first week of april
Labor Day, May 1st
Independence Day, September 16th
Revolution day, November 20th (or nearest Monday)
Christmas day, December 25th

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CONSULTING AUDIT TAX ACCOUNTING

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