



Lebrija, Álvarez y Cía., S.C.

HLB MEXICO



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TAX & BUSINESS CLIMATE IN MEXICO

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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.



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Population

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%.





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Population

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.



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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.





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Government

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.



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Economy

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%.



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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.



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Mexico Foreign Trade (Trade Agreements)

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.





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Mexico Foreign Trade (Trade Agreements)

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.



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Mexico Foreign Trade (Trade Agreements)

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





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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.



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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 .





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Foreign investment in Mexico

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.



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Different types of Societies

	Incorporated Company	Limited Liability Company	Civil Company
Shareholders	2	2	2
Partners			
Capital	\$50,000	\$3,000	\$1,000
Securities	Shares	Social Parts	Social Parts





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Obligations of the Societies

1. An Assembly meeting must be held once a year within the first 4 months.
2. Formalize the constitution before a notary or a competent public authority.
3. Request registration with the Ministry of Finance and Public Credit.
4. Submit and pay taxes each 17 day of the month and annually.
5. Information for Transfer Pricing.



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Major Taxes on Corporations

Income tax

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.

The employees' profit sharing is an additional 10% on taxable income.

Payroll tax is 3% paid by the company.





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Major Taxes on Corporations

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.



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Major Taxes on Individuals

Income tax

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%.





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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.

