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An overview of the Mexican Tax  
System and 2008 Tax Reform.  
*How does it impact international business.*

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ABOGADOS



## • Federal Tax System:

### - Direct Taxes

- Income Tax (ISR) 27%
- Asset Tax (IAE) (until dec. 31, 2007) 1.8%
- Business Flat Tax (IETU) (from jan. 1<sup>st</sup>, 2008) 16.5 – 17%
- Stock market gains tax in cases of change of control

### - Indirect Taxes

- Value Added Tax (IVA) 10 – 15%
- General Import Tax (IGI).- Ad valorem
- Production and Services Tax (IEPS) 25 – 160% (alcohol, gas, tobacco)
- New automobile Tax (ISAN) and Car ownership Tax (ITUV)
- Cash deposits Tax (IDE) 2% over MXP\$20,000/mo

### - Government Fees

### - Social Security

- Medical, Pension, Housing





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- Other important State Taxes
  - Payroll Tax (ISN) (2%, local, in most States)
  - Real estate acquisition Tax (ISABI) 2%
  - Real estate Property Tax (IP)



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- Double Taxation / Information Sharing Treaties (DTTs):

- **Signed, in force:**

Germany, Australia, Austria, Argentina, Belgium, Brazil, Canada, Korea, Chile, China, Denmark, Ecuador, Spain, USA, Finland, France, Greece, Indonesia, Italy, Israel, Ireland, Japan, Lebanon, Luxemburg, Norway, New Zealand, Netherlands, Poland, Portugal, UK, Czech Republic, Slovakia, Rumania, Singapore, Sweden, Switzerland

- **Under negotiation:**

Barbados, Bermuda, Malaysia, Nicaragua, Panama, Russia, South Africa, Thailand, Ukraine, Venezuela



- Tax havens under Mexican law:

Anguila, Antigua y Bermuda, Antillas Neerlandesas, Archipiélago de Svalbard, Aruba, Ascención, Barbados, Belice, Bermudas, Brunei Darussalam, Campione D'Italia, Commonwealth de Dominica, Commonwealth de las Bahamas, Emiratos Árabes Unidos, Bahrein, Kuwait, Qatar, West Samoa, Puerto Rico, Gibraltar, Granada, Groenlandia, Guam, Hong Kong, Islas Caimán, Isla de Christmas, Isla de Norfolk, Isla de San Pedro y Miguelón, Isla del Hombre, Isla Qeshm, Islas Azores, Islas Canarias, Islas Cook, Islas de Cocos o Kelling, Islas de Guernesey, Jersey, Alderney, Isla Great Sark, Herm, Little Sark, Brechou, Jethou Lihou (Islas del Canal), Islas Malvinas, Islas Pacífico, Islas Salomón, Islas Turcas y Caicos, Islas Vírgenes Británicas, Islas Vírgenes de Estados Unidos de América, Kiribati, Labuán, Macao, Madeira, Malta, Montserrat, Nevis, Niue, Patau, Pitcairn, Polinesia Francesa, Andorra, Liechtenstein, Mónaco, Swazilandia, Tonga, Jordania, Albania, Angola, Cabo Verde, Costa Rica, Chipre, Djibouti, Guyana, Honduras, Islas Marshall, Liberia, Maldivas, Mauricio, Nauru, Panamá, Seychelles, Trinidad y Tobago, Túnez, Vanuatu, Yemen, Uruguay, Sri Lanka, Samoa Americana, San Kitts, San Vicente y las Granadinas, Santa Elena, Santa Lucía, San Marino, Omán, Tokelau, Trieste, Tristán de Cunha, Tuvalu, Zona Especial Canaria, Zona Libre Ostrava.

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## • Tax authorities in Mexico:

- **Administrative / Executive branch:**
  - SAT = Internal Revenue Service
  - DGA = Mexican Customs
  - IMSS = Social Security Administration
  - INFONAVIT = Housing Administration
  - +
  - State treasuries
  
- **Judicial / Administrative courts:**
  - Federal Tax and Administrative Justice Tribunal
  - Federal District Courts for Administrative matters
  - Federal Collegiate Courts
  - Federal Supreme Court (constitutionality issues)
  - +
  - State Administrative Courts (local)



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- International Tax issues in Mexico:
  - Income tax withholdings (4.9% to 40%)
  - Dividends fiscally transparent
  - VAT not accruable / deductible (15% overpricing)
  - Transfer pricing / related transactions assumed (*juris tantum*)
  - Cash flows to/from tax havens always watched / maximum withholding
  - Fiscal transparency of dividends / double - multi taxation in other countries



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- 2008 Tax reform:

- 3 new taxes:

- IETU

- IETU a control Tax / minimum for the Income Tax
      - IETU not yet included or added to existing DTTs

- IDE

- Stock market gains tax

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- Impact of the 2008 Tax reform:
  - Increased tax burdens and pressure
  - Removal of corporate veil protection for foreign managers / directors
  - Increased exposure to double or multi taxation
  - Less fiscal transparency for dividend payments
  - Risk of triggering investment protection clauses of Free Trade Agreements
  - Potential increase in DRMs under DTTs
  - Publicly traded stock gains taxed in case of change of control

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