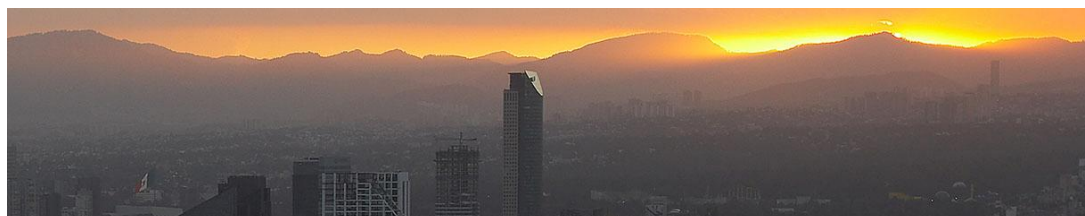


**Doing  
business  
in Mexico**

2011





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# Doing business in Mexico

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## Preface

This guide was prepared by Mancera, S.C., a member professional services organization of Ernst & Young. It was written to give executives a quick overview of the investment climate, taxation issues, forms of business organization and business and accounting practices in Mexico. Making decisions about foreign operations is complex and requires an intimate knowledge of a country's commercial climate, with the consideration that it can change overnight. Companies doing business in Mexico, or planning to do so, are advised to obtain current and detailed information from experienced professionals. This guide contains information as of September 1<sup>st</sup>, 2011.

# Introduction

## Geography

Mexico has an area of 1,958,201 square kilometers (761,601 square miles). It shares its northern border with the United States and its southern border with Belize and Guatemala. Mexico's Pacific coastline is 8,560 kilometers (5,316 miles) long, and is separated from the long, narrow peninsula of Baja California by the Gulf of California. The Gulf of Mexico and the Caribbean Sea lie to the east of Mexico.

Mexico is shaped like a cornucopia, with the Yucatan Peninsula as the tip. It is traversed by three mountain systems—the Western Sierra Madre, the Eastern Sierra Madre and the Southern Sierra Madre. Except for Baja California and the Yucatan Peninsula, most of Mexico consists of highlands. Valleys and canyons crisscross plateaus and mountains, some of which are volcanic.

## Population and language

Mexico's population in 2010 was consisted of approximately 108.4 million people, ranking Mexico as the eleventh most populated country in the world. The annual population growth has decreased from an average rate of 2.9% from 1970 to 1980, to 2.3% from 1980 to 1990, to 1.6% from 1990 to 2000 and to 0.97 from 2000 to 2010.

The official language in Mexico is Spanish. English is also used in the international business community and among various sectors of the population.

## Time

Mexico is situated in three time zones. Most of the country lies in the Mexico City zone, which is six hours behind Greenwich Mean Time (GMT) and one hour behind New York and Washington, D.C. Portions of northwestern Mexico and Baja California Sur are seven hours behind GMT, and a small portion of Baja California Norte is eight hours behind GMT. Mexico observes daylight savings (summer) time different from US.



## Public holidays

The following table lists public holidays in Mexico. The dates when holidays are observed do not vary from year to year unless they fall on a weekend, in which case, according to new Mexican legislation, they must be celebrated the immediately following Monday.

Holiday	Date
New Year's Day	1 January
Constitution Day	5 February
Benito Juarez's Birthday	21 March
Labor Day	1 May
Independence Day	16 September
Revolution Day	20 November
President Inauguration Day (occurs every 6 years)	1 December
Christmas Day	25 December

## Useful addresses and telephone numbers

For a list of useful addresses and telephone numbers in Mexico see Appendix 1.

# A. Government structure and economic climate

## A.1 Government structure

Mexico is a federal republic composed of a federal district (Mexico City) and 31 states. The constitution establishes three branches of government—executive, legislative and judicial. Comprising the executive branch, the President of Mexico is elected by direct popular vote for a six-year term and may not be reelected. An appointed cabinet assists the President.

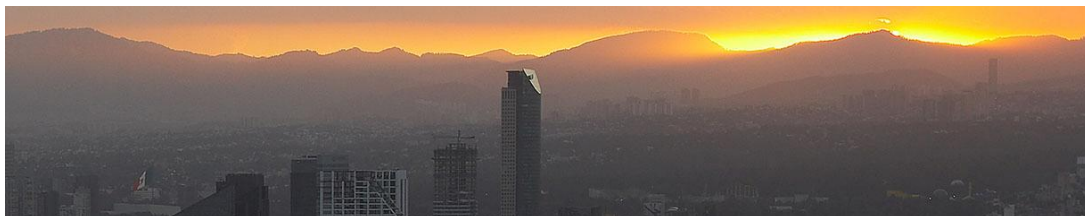
The legislative branch consists of an upper house or Senate, with four representatives from the federal district and each state, and a lower house or Chamber of Representatives, with 500 members. Senators serve six year terms. At the state level, state governors are elected by popular vote for six-year terms. State legislatures have Chambers of Deputies, whose members are elected for three-year terms.

The judicial branch is charged with enforcing the constitution and resolving conflicts between parties. The judicial branch is formed by the Supreme Court of Justice of the Nation, the Electoral Tribunal, Collegiate Tribunals, Unit Circuit Tribunals, the District Court and the Council of the Federal Judiciary. The Supreme Court, which is the highest-level court in Mexico, also resolves controversies between the federation and federal entities.

During most of the 20<sup>th</sup> century, Mexico experienced a single-party government regime under the Institutional Revolutionary Party (Partido Revolucionario Institucional, or PRI). In 1997, the PRI lost its simple majority in the congress and the government of the federal district, and was compelled to reform laws. Therefore, the need to forge agreements, not required before, now became an imperative.

The 2000 presidential election was won by the conservative PAN (National Action Party) and confirmed not only the state of a democratic transition, but also demonstrated that institutional reforms promoted by Mexico during the past decades were able to result in a fairer, more equitable electoral process. This was also possible thanks to the supervision of the Federal Electoral Institute and the presence of international and national NGO's who worked as electoral observers. Their performance transformed a competitive electoral campaign into the most transparent election in Mexico's recent history.

The 2006 presidential election confirm that Mexico continues in a democratic transition resulting in the election of President Felipe Calderon the country's second president to hail from the conservative PAN (National Action Party), beginning with an impressive start in his mission to boost the credibility of his narrowly elected government. Calderon kicked off with a crackdown on organized crime, a thinly veiled statement of presidential authority, and has made progress in alliance building obtaining results such as successful pension reforms.



## A.2 Economy

### Type of economy

Mexico has been subject to a strict stabilization program since 1983 to achieve long-term, self-sustained economic growth. The following are the program's objectives:

- ▶ Imposition of fiscal discipline;
- ▶ Implementation of consistent monetary and financial policies;
- ▶ Reduced inflation levels;
- ▶ Privatization;
- ▶ Deregulation; and
- ▶ Implementation of open international trade policies.

The program has resulted in two major structural changes to the Mexican economy—the reduction of the government's role in the Mexican economy and the liberalization of international trade.

For details regarding special investment considerations, see Section B.2.

### General economic trends

In 2010, Mexican economic activity began to recover from the recession during 2009. Growth continued its path during the first trimester of 2011 with its peak in the second quarter of 2010 with an average annual growth rate of 7.6%. The economic recovery was mainly in response to the increase in external demand due to the growth of US industrial activity. This positively affected the sectors producing internationally commercial goods.

Although non-commercial goods are by far the most important contributors to GDP (74%), commercial goods proved to be more volatile to economic shocks. Since the start of the economic recovery commercial goods experienced higher annual growth rates which slowly converged to the non-commercial goods' annual growth rate of 5% in the first quarter of 2011.

Internal aggregate demand was mainly stimulated by private investments and consumption. In 2010, private investment and consumption had an average annual growth rate of 2.7% and 5%, respectively. After a strong negative growth of -5.7% in 2008, private consumption recovered to 4.7% in 2010 with a peak of 6.8% in the second quarter of 2010. Private investment is showing an increasing trend since the beginning of 2010. Public investment and consumption had an average yearly growth of 1.4% and 2.8%, respectively.

In 2010 Mexican fiscal and monetary policy mitigated the negative effects of the volatility of the international financial markets through 3 pillars: a reduction of the fiscal deficit; monetary policy focused on its inflation objective and to anticipate on the negative effects of a possible capital flow reversal the implementation of precautionary measures by Mexican financial authorities, such as the possibility to increase the banking reserves requirements and requesting an extension of its flexible credit line with the IMF.

### Components of GDP:

*Private consumption:* caused by the overall economic growth and the more favorable labor market conditions, consumer confidence recovered from the global economic crisis. In 2010 confidence levels increased by 12.3% compared to 2009. This recovery is also reflected by the increase in domestic private consumption. Overall recorded retail sales increased by 6.5% in 2010.

*Private savings:* gross domestic savings as a percentage of GDP increased by 1.56 percentage points (pp.) in 2010 which is a recovery from the drop of 2.41 pp. in 2009. The recovery of savings is partially due to the increase in employment and the corresponding employment saving plans (e.g. retirement savings plan, social security). Voluntary private savings experienced increases due to the higher economic activity and higher valuation of assets for investment.

*Investment:* Gross fixed investment (GFI) as a percentage of GDP increased by 1.77 pp. in 2010. Compound annual growth rate increased from -11.7% in 2009 to 2.4% in 2010. During the first quarter of 2011 GFI continued growing to 7.8% of GDP. In particular gross capital formation in machinery and equipment experienced high growth rates with an average of 13.7%. Foreign direct investment (FDI) increased by 16.5% in 2010. One transaction explains most of the growth—the acquisition of a local brewery from Grupo FEMSA by Dutch firm Heineken. In addition, Mexico benefited from significant amounts of short-term capital inflows (portfolio investment), as fears about the weakness of the Mexican economy vanished and foreign investors decided to take advantage of relatively high interest rates in the context of an appreciating currency.

*Government spending:* Public deficit increased to 370.6 billion pesos (2.8% of GDP) in 2010. In terms of percentage shares of GDP, this was an annual increase of 0.5 pp. Excluding public investment in the petroleum industry, the deficit was 101.8 billion pesos - an increase of 0.6 pp. in terms of % GDP.

*Balance of payments:* The current account balance decreased by 9.5% mainly due to a decrease in the trade deficit of 32%. Manufacturing goods contributed the most to the increase of exports. Also petroleum exports had an important contribution due to the increase of international crude oil prices as well as the volume of crude oil exported. The capital account increased considerably from US\$18,853 million in 2009 to US\$36,017 million in 2010. This increase was a result of the increasing tendency of capital inflows towards emerging economies and the incorporation of Mexican government bonds into the World Government Bonds Index (WGBI), which benefited increased capital inflow and financing of the external deficit and the accumulation of international reserves by US\$22,759 million (an increase of 322%).

#### **Labor market trends:**

The economic expansion in 2010 resulted in the recovery of formal employment such that employment numbers exceeded levels of 2009. In 2010, 730,348 formal jobs were created, the highest increase since 1996. Additionally, the unemployment rate was below pre-crisis levels (in 2008). Also, the proportion of the population employed in informal activities remained high throughout the year.

86% of the employment created is explained by positive business results in the maquiladora manufacturing industry (247,209), commerce (136,968), business, private and personal services (131,181) and construction (85,532).

In 2010 manufacturing production levels increased more than employment, thereby increasing productivity per worker. In combination with the small loan increases in the sector, this resulted in decreasing labor unit costs.

Due to contra-cyclical fiscal policy during the recent global crisis, employment did not experience a large contraction. In 1995 (tequila crisis) GDP fell by 6.2% and formal employment by 8.2%, while in 2009 GDP dropped by 6.1% and employment only by 1.3%.

For a table of Mexico's leading economic indicators, see Appendix 2.



### A.3 Leading industries

The services sector - excluding retail sales - had the highest GDP share (47%) followed by manufacturing (18%), retail sales (16%) and mining (8%). Between 1980 and 2010, the services sector (excl. retail sales) experienced an increase in percentage share of GDP of 12 pp., indicating the strong development of internal demand.

GDP share of the smaller sectors such as the construction sector was 7%, followed by agriculture (4%), public utility (1%) and financial intermediate services (2%).

Besides having the highest contribution in GDP, the services sector also had an important role in the economic recovery by experiencing an annual growth rate of 13.3%. Also the manufacturing sector had a crucial role in GDP growth with a 10% annual growth rate mainly driven by its segments machinery and equipment manufacturing (43% of total manufacturing production) and transportation equipment (40% of total manufacturing production).. Some services such as transportation, mail and storage (and information and mass media (both 6% share in total manufacturing production) also had a contribution to the economic expansion of 2010.

*Primary sector:* the primary sector experienced an average annual growth rate of 3.2% in 2010. This illustrated a considerable recovery compared to the negative growth the sector experienced in 2009 (-2.1%). However, in terms of percentage share of GDP, the sector maintained mostly its production level over the last 2 years (3.6%). The relative stability in the sector illustrates the moderate effects the crisis had on internal demand. Moreover, the constant GDP share of the sector reflects its movement with the economic cycle.

*Secondary sector:* of the three main economic sectors, the secondary sector experienced the strongest annual average growth rate (6%). As mentioned before, within this sector the manufacturing subsector experienced the highest growth rate (10%). This subsector also experienced an uncommon increase in its contribution to GDP: 16.7% in 2009 to 17.42% in 2010. This tendency is one of the results of the favorable investment climate created by public policy for foreign industrial companies. Also, the negative tendency of the prior years in the developed countries made Mexico a more interesting location for manufacturing. Leading subsectors in the manufacturing industry remains to be the automotive industry with a percentage share in GDP of 3.2% in 2010, which is a considerable increase since 2009 (2.4%), and the food industry (3.9%), followed by the chemical manufacturing industry (1.6%), beverages and tobacco (1.1%) and non-metal product manufacturing (1.1%). The automotive and transportation equipment subsector is also the one that experienced the highest average annual growth rate in 2010 (44.3%), followed by machinery and equipment manufacturing (43%), basic metals industry (13%), metallic products manufacturing (11.6%) and manufacturing of leather products (11.3%).

*Tertiary sector:* retail had the highest percentage share in GDP (16%) in 2010, followed by real estate services (11%), transportation, mail and storage (7%), educational services (4.7%) and financial services and insurance (4.4%). Most of these sectors also experienced the highest average annual growth rates during 2010: commerce recovered strongly from the negative effects of the crisis in 2009 (-13.96%) to a positive growth rate of 13.52% in 2010. Insurance and pension institutions experienced an even stronger growth recovery: from a negative growth of -42.74% in 2009 to 12.36% in 2010. Other subsectors with high growth rates in 2010 are: transportation, mail and storage (6.5%), information and mass media (5.6%) and government services (4.4%).

## A.4 Financial system

### Central Bank (Banco de México - Banxico)

In April 1994, changes in the Constitution and the Banxico law came into effect, granting the Central Bank independence. The Country thus applied a globally accepted banking system that took off in the 1990s. The basis for this perspective is that the institutional environment for monetary policy is relevant and that autonomy could make it possible to achieve better economic results, both in terms of price stability and in lower GDP costs (their variability vs. potential GDP) and employment to reach that objective.

The idea is that independence makes a Central Bank's commitment to price stability more credible, and may thus minimize the associated cost and also enable it perhaps to better confront the need to stabilize GDP around its potential (which is, however, not determined by monetary policy). This means that Banxico, in taking monetary policy actions, is to a large extent isolated from the decisions of federal government elected officials and members of Congress. It is therefore less subject to short-term political pressures -during election periods, policies are more biased towards promoting growth through low interest rate policies and increases in the public deficit financed by the Central Bank (which makes an inflationary result more likely).

### Bank regulators and banking system

The National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, or CNBV) establishes operating and accounting rules for banks. The Ministry of Finance, the CNBV, and the Central Bank are the principal regulators of the banking system.

Foreign participation in the financial sector is increasing, and the flow of foreign capital has reinvigorated the banking system in Mexico.

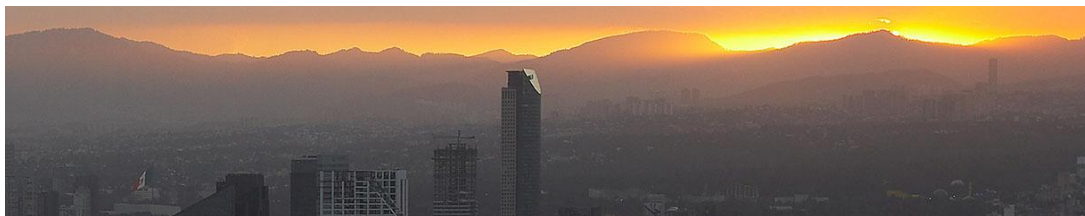
Development banks provide credit to priority sectors, including agriculture, fishing, importing and exporting, industrial development, public works and tourism. Development banks also provide technical assistance to borrowers.

To promote greater competition among the different types of intermediaries, financial institutions are allowed to establish financial groups. In addition, revamping of the retirement savings system (SAR) provides new opportunities for financial groups. Under the revamped SAR, which began on July 1, 1997, management of the SAR and social security system resources were transferred from the Central Bank to retirement fund administrators (AFOREs), which are financial groups composed of private companies.

### Stock Exchange and Securities Regulating Authority

In 2010, the evolution of the Mexican capital market recovered from the financial crisis. The improved outlook for global economic growth and the economic development of the emerging markets positively affected the Mexican international financial market. The Mexican Stock Market Index (*Índice de Precios y Cotizaciones de la Bolsa Mexicana de Valores* or "IPC") recorded an expansion since the second quarter of 2010 of 29.3%. Overall the IPC closed with a market capitalization 36.9% higher than in 2009. In December 2010 the market capitalization of the Mexican Stock Exchange accounted for 66.7% of GDP.

The CNBV establishes operating and accounting rules for securities trading intermediaries (stock brokerage firms).



## A.5 Currency

Mexico's national currency is the peso.

After a long history of high and volatile inflation, Mexico has been converging towards price stability. Inflation targets have gone from 10% in 2000 to 3% since 2003. After a spike during the recent crisis (6.5% during November 2008), annual inflation has been nearing its long-term target of 3%. This allowed the Central Bank to gradually lower the policy overnight interest rate from 7.75% in January 2009 to 4.5% in July 2009. According to Banxico, lower inflation has greatly benefited from a negative output gap in 2009-2010. Although the negative output gap is quickly reducing, Banxico expects inflation to continue its convergence towards the 3% target.

The outlook of IHS Global Insight for the exchange rate is largely based on the outlook for the US economy, which calls for moderate growth, although unemployment will remain high and interest rates will remain low. This implies a positive outlook for the Mexican economy as well as relative stability and, to some extent, appreciation of the Mexican currency. The peso is still substantially weaker than in the period preceding the outburst of the financial crisis in the US (September 2008). As economic growth accelerates and confidence improves, the peso will strengthen. As defined by the purchasing power parity approach, IHS Global Insight estimates the equilibrium exchange rate at around MXN12.00/USD1.00 in 2011. Latest forecast calls for an exchange rate of MXN11.49/USD1.00 at the end of 2011.

At the end of 2010, the spot exchange rate was 12.34 pesos per U.S. dollar.

For a table presenting average foreign-exchange rates of the Mexican peso against other major currencies from 2006 to 2010, see Appendix 3.

## B. Investment climate and foreign trade

### B.1 Investment incentives

The Mexican government encourages foreign investment. The government's attitude represents a change from its previous policy several years ago, under which foreign investment was only permitted in a few industries, subject to many restrictions. The law eases ownership restrictions in various industries and streamlines the legal procedures required for foreign investments. Foreign investment opportunities have increased considerably in the last few years as a result of privatizations (see Section B.3) and the Mexican government's concession program for infrastructure, which continues to provide additional opportunities for investment.

#### Maquiladora program

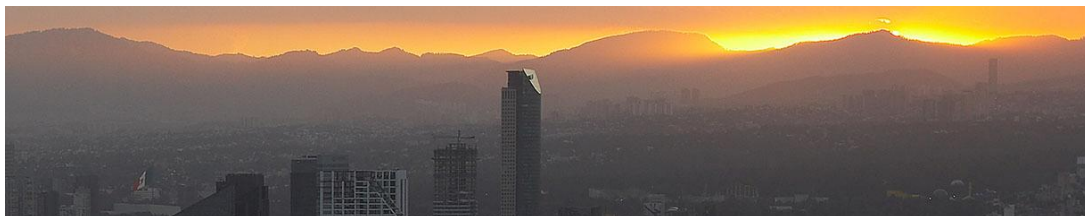
The Mexican government created the maquiladora program, or manufacturing export industry, in 1965. The program allows foreign corporations to establish maquiladoras in Mexico that manufacture products almost exclusively for export. Designed primarily to utilize the inexpensive labor available in Mexico, the program now also incorporates capital-intensive operations. Maquiladoras were originally established in U.S. border areas for the benefit of U.S. companies. They may now be located anywhere in Mexico and the program is open to companies from any country.

Maquiladora plants generally engage in assembly activities, often combining Mexican labor and materials with foreign capital, components and technology. Parts, raw materials and other components used by maquiladoras to assemble or manufacture semi-finished or finished export products may be imported duty free.

As an alternative to incorporating a wholly-owned Mexican subsidiary, foreign companies often conduct a maquiladora operation by subcontracting the manufacturing process to an existing company in Mexico or by operating through a "shelter company", which exists solely to manufacture or assemble for investors.

Since 1995, maquiladoras may benefit from provisions regarding transfer pricing. Under these provisions, maquiladoras may avoid penalties and interest and the imposition of net assets tax on their parent companies if they adopt any of the following conditions:

- ▶ Transfer Pricing study plus one percent of the net value of Machinery & Equipment owned by the maquila company's related party abroad
- ▶ Safe harbour of the higher of 6.9% return of assets ("ROA") or 6.5% cost plus
- ▶ Transfer pricing study based on ROA
- ▶ Advance Pricing Agreement



On October 30, 2003, a Presidential Decree was issued to grant a partial exemption of income tax to maquiladoras meeting certain requirements.

Under the North American Free Trade Agreement (NAFTA, see Section B.3), maquiladoras lost much of their unique attributes, primarily because North American goods and components will eventually receive duty-free treatment in Mexico, regardless of whether the importing company in Mexico is a maquiladora.

The import-tax rules for maquiladoras were modified in November 2000. Maquiladoras must now pay a general import tax as if these items are imported permanently. The duty paid corresponds to the preferential duty established in the "Sector Promotion Programs", if certain requirements are met. Currently, 22 such programs are in operation.

### **Other programs**

In a decree establishing temporary import programs to produce goods for export (PITEX), the Mexican government introduced a program that allows companies producing goods for export under programs approved by the Treasury Department and the Ministry of Economy to import component materials temporarily, without paying duties that apply to items for domestic usage.

The government introduced another program in order to promote the operation of export-intensive companies (ALTEX). This program applies to "export-intensive companies" and is designed to ease administrative procedures and to provide operational assistance. Direct export-intensive companies are defined as those with annual export sales of at least US\$2 million or with export sales amounting to at least 40% of total sales. Indirect export-intensive companies are those that use imported materials in the products they produce for export or that are exported by third parties. These companies must export at least 50% of their total sales. Tax incentives extended to these companies include a simplified tax system for customs clearing agents and an immediate refund of their value-added tax (VAT) credit balance.

### **Tax incentives**

Mexico offers tax incentives for certain entities and/or activities. For details see Section C.4.

## **B.2 Special investment considerations**

### Regulated industries

#### **Intellectual property**

Mexico's Intellectual Property Law regulates the use of patents, trademarks, industrial and model designs, trade names, advertisements and business names in Mexico. The law, which became effective October 1, 1994, conforms Mexico's patent and trademark law to the North American Free Trade Agreement requirements (NAFTA, see Section B.3). The law provides broader patent and trademark protection than the prior law.

Under the law, an administrative body, the Mexican Intellectual Property Institute (MPI), is granted search, seizure and closure powers.

## Patents

A patent grants its holder the right to exclusive use of an invention, either directly or through licensing its use to others. The 1994 law expands the scope of inventions that may be protected by patents by only listing those inventions that are not eligible for protection. Under the prior law, eligible inventions were listed, resulting in the ambiguity of protection of unforeseen inventions. The most recent change allows patents to be issued for inventions not yet discovered in areas such as genetic engineering, biotechnology and pharmaceuticals.

Under the law, the following patents may be registered:

- ▶ Invention patents for all new inventions that have an industrial use; and
- ▶ Improvement patents for all improvements to existing patents, if initial registration requirements are met.

Patent holders may be individuals or corporate entities. Patents are valid for 20 years from the date the application is filed and may not be renewed. Legal protection begins on the date the application is filed. Patent holders may grant others a license for use. These licenses must be registered with the MIPI.

*Industrial Designs and Models.* Industrial designs and models are subject to the same protections and procedures as those for patents. The right to exclusive use of industrial designs and models extends for a nonrenewable term of 15 years.

*Trademarks and Trade Names.* Trademarks, which are distinctive visible symbols and other means of identifying a business, and trade names, may be registered as trademarks with the MIPI. The following types of trademarks are recognized:

- ▶ Product trademarks, which are names or names with emblems that distinguish particular articles or products from others of the same type or class;
- ▶ Service trademarks, which are names or names with emblems that distinguish a particular service from others of the same type or class;
- ▶ Commercial names; and
- ▶ Names of companies or owners of businesses.

The 1994 law gives wider recognition to trademarks that are well known in Mexico or abroad. Registered trademarks are now protected from those that are deemed confusingly similar.

Registration of a trademark grants the registrant the exclusive right to use the trademark. However, if a trademark is used for a purpose other than that for which it was registered, it is void. Registration must be requested in writing, indicating the trademark and the name, address and nationality of the party seeking the registration, as well as the date the trademark is first used.



Trademarks are protected for 10 years from the date a trademark application is filed and may be renewed for an additional 10 years. Trademarks not used for three consecutive years may be cancelled. To prevent such cancellation, the trademark holder must demonstrate to the MIPI that the trademark has been used within three years of registration.

To recognize the priority of a trademark, reciprocity with the country of origin of the application is no longer required. Holders of a registered trademark with priority have three years to seek nullification of a trademark granted in Mexico.

Also, as a result of recent reforms to the Intellectual Property Law, the MIPI is authorized to issue the declarations of notoriety of the “well known trademarks”, which should be previously registered before the MIPI.

A “well known trademark” in Mexico is considered when a specific sector in the Mexican territory identifies the trademark as a consequence of the commercial activities developed in Mexico or abroad of a person or entity using the trademark in connection with the products or services or, as a consequence of the promotion or publicity of such trademark.

Trademarks identified by the majority of the consumers could be declared as a “well known trademark”.

A declaration of “well known trademark” in Mexico issued by the MIPI grants protection to all the products or services, not limitation to a specific class. As a result of this full protection, any equal or similar denomination, symbol of tri-dimensional form of figure, could not be registered as a “well known trademark”.

The declaration of “well known trademarks” could be considered as full proof for purposes of legal procedures in Mexico or abroad.

New regulations pretend to diminish that any non-authorized third party could take advantage of the “well known trademark” and to prevent a discredit of such trademark and of its holder.

Trademark holders may grant others a license for use. These licenses must be registered with the MIPI.

*Copyrights.* The Mexican copyright law recognizes and protects the rights of authors of intellectual or artistic works. Intellectual and artistic works are protected under the law even if they are not registered, known to the public or published. Under a 1991 amendment to the copyright law, sound recordings and computer software are now explicitly covered by copyright protection.

Rights to use provided by a copyright include publication, reproduction, performance, exhibition, adaptation and any other public use. Copyrights also grant rights concerning recognition and defense against deformation, mutilation and alteration. These rights, considered to accompany the author, are perpetual, unalienable and irrevocable.

Copyrights are valid from the date of the first edition until 75 years after the author’s death, including posthumous works. For coauthored works, the 75-year period begins after the death of the last surviving author. Works without an author become public domain as of the date of their first publication. Rights to use may be transferred by license of use and testamentary provisions. If the holder of a copyright dies intestate, the right becomes the property of the MIPI.

## **Government-owned industries and privatization**

The Mexican government has pursued a policy of partial privatization to redefine the role of the State in the economy. Privatization has been most noticeable in the commercial banking, air transportation, telecommunications, steel and tourism sectors. The government has also privatized other sectors, including natural gas transportation and commercialization, airports, ports, railroads and the petrochemical industry.

The number of companies and trusts operated by the government has declined significantly in recent years. In addition, the Mexican government has awarded concessions to both local and foreign investors in infrastructure projects involving highways, ports, potable water and sewage systems, cogeneration of electric power and cellular telephone telecommunications.

## **Restrictions on foreign investment**

### **Foreign investment law**

Mexico's foreign investment law aims to achieve the following objectives:

- ▶ Eliminate legal restrictions on equity investments by foreigners in Mexico;
- ▶ Establish and simplify criteria and procedures for foreign investment; and
- ▶ Establish a legal process that provides certitude, permanency and security to foreign investments.

Under this law, foreign investment includes the following:

- ▶ Any equity interest held directly or indirectly by foreign investors in the stock of Mexican companies;
- ▶ Any investment made by Mexican companies in which foreigners hold an interest; either directly or indirectly and;
- ▶ Participation of foreign investors in certain permitted activities described in the law.

The 1993 law eliminated many of the restrictions contained in the prior law to promote foreign investment and stimulate development. The law allows foreign investors to engage in many activities, subject only to certain specific restrictions. Foreign investors may acquire shares of Mexican companies and fixed assets, enter into new fields of economic activity, manufacture new products, open and operate establishments, and expand or relocate existing establishments.

The foreign investment law provides that the following areas are reserved exclusively for the State:

- ▶ Petroleum and other hydrocarbons and basic petrochemicals, excluding activities related to the transportation, storage and distribution of gas other than liquid petroleum;
- ▶ Electricity, excluding activities such as the generation of electricity for self-supply; cogeneration or small-scale distribution; generation of electricity by independent producers for sale to the Federal Electricity Commission; generation of electricity for export, derived from cogeneration, independent production and small-scale production; imports of electricity by individuals or business corporations destined exclusively for private use; generation of electricity destined for emergency use as a result of public service power cuts;



- ▶ Generation of nuclear energy;
- ▶ Radioactive minerals;
- ▶ Telegraphic communications;
- ▶ Radiotelegraph;
- ▶ Postal service;
- ▶ Printing of paper money;
- ▶ Minting of coins; and
- ▶ Control, supervision, and monitoring of airports, heliports, ports and railways.

The following economic activities and enterprises are reserved exclusively for Mexican individuals or corporate entities with corporate charters that contain a clause excluding foreigners from share ownership:

- ▶ Domestic land transportation of passengers, tourism and cargo, except for messenger and parcel delivery services;
- ▶ Retail gasoline and the distribution of liquefied gas;
- ▶ Radio broadcasting and other radio and television services, excluding cable television;
- ▶ Credit unions; and
- ▶ Development banks.

However, the foreign investment law allows foreigners to make “neutral investments” in these companies and activities. Neutral investments extend equal rights to share in earnings of companies, but do not grant foreigners the right to vote, and accordingly limit the ability of foreign investors to influence or exercise control over Mexican companies and economic activities.

The law limits foreign equity investments in certain activities and types of companies to the following maximum percentages:

- ▶ Production cooperatives: 10%.
- ▶ Domestic air transportation, air taxis and specialized air transportation: 25%.
- ▶ Insurance and bonding companies, exchange bureaus, bonded warehouses, retirement fund administrators, investment society operators, and certain other companies: Variable.
- ▶ “T” series shares of companies that own farming and forest lands (“T” series shares are issued by certain companies that own land for agriculture, raising livestock or growing timber); freshwater, coastal, and territorial zone fishing, except for fish farms; printing and publishing newspapers for circulation exclusively in Mexico; port administration; and the manufacture and marketing of firearms and explosives: 49%.

However, the new foreign investment law allows foreigners to make neutral investments in these companies and activities in excess of the percentages described above.

Foreigners may hold more than a 49% equity interest in the following activities or companies if they obtain prior authorization from the National Foreign Investment Commission:

- ▶ Legal services;
- ▶ Credit bureaus;
- ▶ Security rating agencies;
- ▶ Insurance agents;
- ▶ Construction of pipelines to convey petroleum and petroleum derivatives, excluding the construction, operation and ownership of ducts, natural gas transportation and distribution installations and equipment;
- ▶ Drilling of oil and gas wells;
- ▶ Construction and operation of railroads.
- ▶ Port services for ships engaged in interior navigation such as towing and mooring;
- ▶ Shipping companies engaged exclusively for traffic on the high seas;
- ▶ Administration of air terminals;
- ▶ Cellular telephone services; and
- ▶ Private schools, colleges or universities.

However, the foreign investment law allows foreigners to make neutral investments in these companies and activities in excess of the percentages described above.

Neutral investments by foreign investors can be held by means of the issuance of a special series of stock which grants non unlimited economic rights to its holders with limited or no voting rights; or else, through a Trust Agreement specially designed to grant economic rights to foreigners as the beneficiaries.

Except for the limitations described above, foreigners may own up to 100% of Mexican companies without obtaining authorization from the Mexican government. In addition, investments in companies engaged in maquiladora industries, which assemble or process goods for export, do not require authorization. For details regarding maquiladoras, see Section B.1.

All Mexican companies with direct or indirect foreign investment must be registered with the National Foreign Investment Registry. No conditions apply to such registration, except for the ownership restrictions described above. The registration may be renewed each year through the filing of a financial report.

## **Real Estate**

In general, restrictions are not imposed on the foreign ownership of Mexican real estate. However, under the foreign investment law, foreigners may acquire property located in restricted areas (on the coast or in border zones) for nonresidential purposes only if such property is acquired through the ownership of equity interests in Mexican companies. The Department of Foreign Affairs must be notified of such acquisitions.

Foreign individuals and companies, and Mexican companies whose corporate charters do not contain a clause excluding foreigners, may acquire rights to real estate located in restricted areas through renewable 50-year trusts if they obtain the prior authorization of the Department of Foreign Affairs. To grant its approval, the department considers the anticipated economic and social benefits from the acquisition of the real estate.



## Foreign-exchange controls

Mexico eliminated its foreign-exchange controls in 1991.

## Data Privacy

As of July 06, 2010, the private sector, either individuals or corporate entities that for carrying out their business activities need to collect, use, disclose, store and transfer (hereinafter “the processing”) personal data of individuals only as the data subject, are governed by the Federal Law for Protection of Personal Data in Possession of Private Sector (in Spanish Ley Federal de Protección de Datos Personales en Posesión de Particulares, hereinafter the “Law”) with respect to such data processing, in that sense the National Institute of Information Access and Data Protection (in Spanish Instituto Federal de Acceso a la Información y Protección de Datos Personales) is the regulator responsible of the application and enforceability of such Law.

Among other obligations, starting on July 6, 2011, the Law forces the private sector to obtain the consent either tacit or express (depending on the personal data to be collected) of the data subject prior to its processing. This consent shall be obtained by means of a Privacy Statement under the requirements and principles set on the Law. Failure or omission to the provisions of the Law might cause penalties that range from MXP\$5,982 to the highest of MXP\$ 38’284,800 which can be duplicated in case of the failure or omission is related to sensitive personal data. If derived from the processing of personal data, an illegal profit is obtained, such will be considered as an offense in criminal law which can result on imprisonment for a period from 3 months to 10 years.

## Mexican Constitution

In terms of the recent amendments to the Mexican Constitution and pursuant to the provisions of the Amparo Act, a general declaration of unconstitutionality shall apply to all citizens when its issued by at least 8 votes of the members of the Supreme Court of Justice in Mexico (in Spanish SCJN). This legal figure is similar to the class action figure pursuant to the Common Law, since both allow the collective protection, defense and legal representation of rights and interest of the citizens, while in the case of Mexico this general declaration of unconstitutionality could be claimed by an individual instead of a group of citizens, although the legal effects of such declaration shall apply to all citizens.

## B.3 Regional and international trade agreements and associations

Mexico is the country with the largest network of Free Trade Agreements (FTA's) in the world. Mexico's network of FTA's with 42 countries, on three different continents, represents a unique opportunity for foreign investors, offering preferential access to a potential global market of more than 870 million consumers.

### European Free Trade Agreement

Mexico signed a free trade agreement with the EU on November 24, 1999, creating free trade opportunities with one of the world's most prosperous consumer markets. Using the EU agreement as a springboard, Mexico also reached a free trade accord with the European Free Trade Area (EFTA). The EFTA is comprised of four non-EU nations: Iceland, Liechtenstein, Norway, and Switzerland.

### North American Free Trade Agreement

Mexico entered into the North American Free Trade Agreement (NAFTA) with Canada and the United States, effective as of January 1, 1994.

NAFTA provides for the progressive elimination of tariffs and quotas with respect to trade between the signatory countries. Acknowledging development imbalances, Mexico's timetable to dismantle its trade barriers under NAFTA is more gradual than those that apply for Canada and the United States. Mexico was required to reduce tariffs immediately on approximately 50% of industrial goods and 30% of agricultural goods from Canada and the United States, with virtually all tariffs removed from these categories by 2004. In contrast, Canada and the United States were required to reduce tariffs immediately on approximately 80% of non-oil Mexican products. Special rules also apply to trade in textiles, vehicles and parts, and agricultural products. In addition, Mexico eliminated all nontariff barriers, such as import quotas and local-content requirements.

NAFTA broadened the principles of nondiscrimination regarding the services trade that was initially established in the Canada-United States Free Trade Agreement, and extends them to Mexico. The agreement guarantees Canadian and U.S. financial and other services firms access to the Mexican market without requiring them to relocate their operations and employees to Mexico. The agreement also eliminates restrictions on data processing and other enhanced telecommunications services.

In addition to the elimination of tariffs and nontariff barriers, NAFTA also serves the following objectives:

- ▶ Establishment of clear and binding protection for intellectual property rights;
- ▶ Development of a fair and expeditious framework for dispute settlement;
- ▶ Deregulation of cross-border cargo traffic; and
- ▶ Enhancing environmental legislation.



NAFTA also reduced impediments in the following areas: investment rules, such as equity or management control restrictions, or sector-specific investment bans; export performance requirements; local-content and domestic sales requirements; technology transfers; licensing regulations; and participation of foreign investors in oil-related activities.

To increase market access, customs rules have been further liberalized, including restrictive bonding and entry and exit requirements. Furthermore, NAFTA contains rules of origin to provide a uniform method for determining which products are considered to be of North American origin to obtain preferential treatment under NAFTA.

Some of the benefits to Mexico as a result of NAFTA are reducing the country's dependence on volatile oil revenues and increasing the number of foreign investment opportunities, which are necessary to Mexico's development. In addition, the free trade market has created fundamental changes in trading patterns and in the strategic environment in which businesses operate. The agreement has significantly affected Mexican, Canadian, and U.S. industries in the following sectors: automotive; environmental clean-up; energy (oil and gas); tourism; telecommunications; real estate development; high technology; pharmaceuticals; consumer goods; agribusiness; basic steel plants; textiles; cement producers; and "rust belt" industries.

### **Other free trade agreements**

Mexico has entered into an agreement with Israel, the main contributor of foreign direct investment from the Middle East. Mexico anticipates that this agreement will increase the market for Mexican products.

Mexico is a member of the Group of Three Free Trade Area\*, which also includes Colombia and Venezuela. After eight years of negotiations, Mexico and the three Central American nations that form the Northern Triangle, Guatemala, Honduras and El Salvador, signed their own Free Trade Agreement.

Mexico has also entered into agreements with Bolivia, Brazil, Chile, Costa Rica, Uruguay, MERCOSUR, Nicaragua and Uruguay. Agreements are being pursued with Ecuador, Jamaica, Panama and Trinidad and Tobago.

Mexico signed in September 2004, a free trade agreement with Japan, creating free trade opportunities with one of the world's most prosperous consumer markets.

In addition, Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986.

*\*Since November 19th, 2006, Venezuela left the Group of Three Free Trade Area.*

## B.4 Major trading partners and leading imports and exports

### Major trading partners

The vast majority of Mexico's exports, almost 80%, flow northward to the United States and Canada. Since NAFTA became effective, Mexican exports have grown at an average rate of 15% each year. Total bilateral trade with the United States currently exceeded US\$383 billion in 2010. Mexico is Latin America's largest exporter.

For a list of Mexico's leading trading partners, see Appendix 4.

### Leading imports and exports

Mexico's imports and exports have increased in recent years, primarily as a result of export-oriented government policies and the need to import capital goods to support internal growth and productivity.

### Imports

Mexico's imports totaled US\$301.5 billion during 2010. Mexico's leading imports included machinery, steel, electrical and electronic equipment, chemicals, motor vehicle parts for assembly and repair, aircrafts, manufactured consumer goods and grain.

### Exports

Mexico's exports totaled US\$298.5 billion during 2010. The following manufacturing industries have experienced the greatest growth: paper industry, mining metallurgy, foods and beverages, tobacco, oil, and textiles.

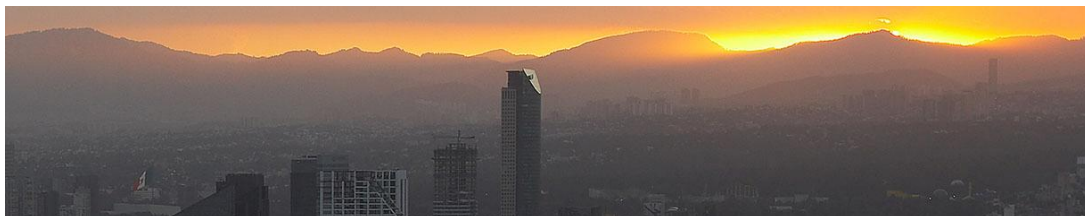
For details regarding Mexico's imports and exports by sector, see Appendix 5.

## B.5 Importing and exporting

Mexico has completely transformed its foreign trade policies since joining the General Agreement on Tariffs and Trade (GATT) in 1986. Since then, the country changed from a virtually closed trading system to one of the most open systems in the world. One of the results of the trade reform was that the maximum import tariff was reduced to an average rate of 10%.

A foreign trade law and an amended customs law were enacted in 1993 to simplify foreign trade rules. The following are key aspects of the foreign trade law:

- ▶ Establishment of a new federal agency, the Foreign Trade Commission (Comisión de Comercio Exterior, or Cocex), to regulate foreign trade;
- ▶ Determination that unfair trade practices include dumping and subsidized production if such actions cause or threaten to cause harm to national production;
- ▶ Establishment of procedures that must be followed before countervailing duties (anti-subsidy import duties imposed under WTO rules) may be imposed; and
- ▶ Limitations on protective measures, such as tariffs, import licenses and quotas to a maximum term of four years.



## Customs duties

The Mexican customs law regulates the flow and transport of goods to and from Mexico. Customs authorities monitor the entry, exit, transport and control of the goods, which may only pass to and from Mexico at authorized locations. The transporter must present the merchandise to the customs authorities together with the required documentation.

The customs law introduced the following changes:

- ▶ Industrial companies may circumvent inspections by declaring their goods at the place of departure, allowing goods to clear customs automatically.
- ▶ To ensure that duties are paid, the customs department may establish reference prices for frequently undervalued goods, such as textiles, machine tools, toys and footwear.
- ▶ The registry of imports and exports has been eliminated. Companies must only maintain an accounting system that allows them to distinguish between local and imported inventory.
- ▶ Goods may be temporarily exported for repairs.
- ▶ The previously required 30 import and export license forms have been consolidated into a single document.

Mexico uses the Harmonized System for Merchandise Classification and Codification for tariff classification. Rates of duties range from 0% to 20%, with the trade-weighted average tariff at approximately 11%. In addition to duties, value-added tax (VAT) at a rate of 16% applies to most imports.

Certain enterprises, such as maquiladoras, may be exempt from customs duties. Mexico established the maquiladora program, allowing foreign companies to establish subsidiaries in Mexico that manufacture or assemble products almost exclusively for export. For further details regarding maquiladoras, see Section B.1.

## Valuation

The value of merchandise for customs purposes is its import duty basis, that is, the value of the import transaction. It is the total price paid by the importer to the seller for the imported merchandise. Imports must be supported by the foreign supplier's invoice and must be assigned normal market values of the country of origin.

The export duty basis is the market value at the place of sale. This value must be stated in an invoice, exclusive of freight and insurance costs.

## Documentation requirements

Importers and exporters must present to the customs authorities a customs declaration approved by the Ministry of Finance and Public Credit. This declaration must include information necessary to determine import or export duties payable.

Import declarations must be accompanied by the following documents:

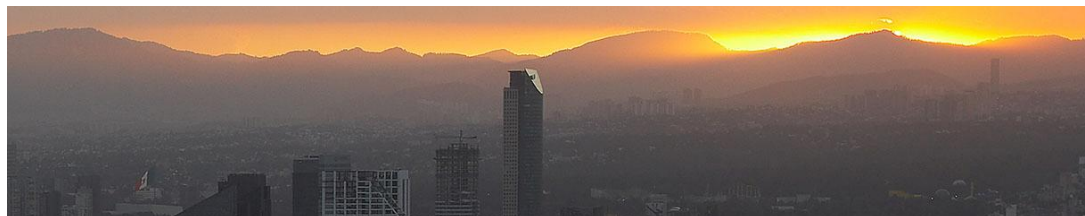
- ▶ The commercial invoice.
- ▶ The bill of lading if the shipment is by boat, or the air bill. The shipping document must be validated by the carrier.
- ▶ The documents substantiating the fulfillment of any special requirements and all obligations, if the merchandise is restricted (see *Restrictions*).
- ▶ Substantiation of the origin of the merchandise and the place of shipment, if required.
- ▶ Export declarations must be accompanied by the following documents:
  - ▶ The invoice indicating the commercial value of the merchandise; and
  - ▶ The documents substantiating the fulfillment of all obligations, if the merchandise is restricted, and any special requirements.

Frequent importers or exporters of merchandise must apply to the Ministry of Finance and Public Credit for registration in the National Registry of Importers and Exporters.

### **Restrictions**

Certain goods may not be imported into Mexico, including merchandise that does not satisfy legal quality standards. Explosives, pollutants and products that are corrosive, flammable or radioactive may not be imported without a prior permit from the appropriate authority.

To ensure effective quality control and help promote exports, the Department of Economy introduced the Official Mexican Standard. This standard establishes specifications, testing methods and, in general, the standards that must be met by all goods produced in Mexico.



## C. Companies

### C.1 Forms of enterprise

Mexican law recognizes the following forms of business enterprises:

- ▶ Corporation (*sociedad anónima*, or S.A.);
- ▶ Corporation with variable capital (*sociedad anónima de capital variable*, or S.A. de C.V.), which is a special, yet commonly used, form of a S.A.
- ▶ Partnership (*sociedad de responsabilidad limitada*, or S. de R.L.);
- ▶ Partnership with variable capital (*sociedad de responsabilidad limitada de capital variable*, or S.R.L. de C.V.), which is a special, yet commonly used, form of a S.R.L)
- ▶ General partnership (*sociedad en nombre colectivo*, or S. en N.C.);
- ▶ Professional general partnership (*sociedad civil*, or S.C.);
- ▶ Limited partnership (*sociedad en comandita simple*, or S. en C.S.);
- ▶ Limited partnership with ownership interests represented by shares (*sociedad en comandita por acciones*, or S. en C. por A.); and
- ▶ Cooperative association (*sociedad cooperativa*).

All of these entities are taxed as business corporations.

Once the mentioned business enterprises have been duly incorporated, in general terms, these shall comply with the following tax obligation:

- ▶ Obtain the corresponding federal tax registration from the Tax Service Administration.
- ▶ Keep accounting records.
- ▶ Keep evidence of the activities, perform and submit copy of such evidence to the tax authorities.
- ▶ File notices and returns.
- ▶ Prepare Statements of Financial Position (Balance Sheet) and take inventories.
- ▶ Obtain and keep documentation supporting related party transactions.

Joint ventures, branches and representation offices of foreign corporations are also recognized. In general, all and any foreigner executing commercial acts in Mexico is subject to the applicability of the Foreign Investments law and its Regulations.

#### Corporations

The S.A. and S.A. de C.V. types of entities must have a minimum of two shareholders. The minimum capital amount for a S.A. is Mex\$50,000, which must be fully subscribed within one year of the establishment of the company. At least 20% of the value of each share must be paid in cash; the balance may be paid with any other assets.

Five percent of a corporation's annual net income must be allocated annually to a legal accounting reserve until the reserve equals 20% of the value of all issued and outstanding capital stock. If the reserve is reduced for any reason, it must be restored to the 20% level.

Any resolution taken by the Management of the Corporation (Board of Directors ) or by the Shareholders through Shareholders' Meeting, that resolves not to allocate annually the 5% as minimum to a legal accounting reserve is void. If the case may be, the Management of the Corporation has unlimited liability and liability in solidum for the amount not allocated,

### **Partnerships**

A minimum number of two partners are required for the S. de R.L. and S. de R.L. de C.V., with a maximum of 50 partners. The minimum capital amount for a S. de R.L. is Mex\$3,000, which must be fully subscribed at the establishment of the partnership. At least 50% of the value of each partnership interest must be paid in cash; the balance may be paid with any other assets.

### **Joint ventures**

Business enterprises or individuals may form joint ventures (*asociación en participación* or *A en P*) to pursue a common business goal. A joint venture is conducted in the name of an active associate (*asociante*), who manages operations and has unlimited liability for the debts of the operation. The active associate grants the contributing associate (*asociado*) the right to participate in profits. Contributing associates are liable only to the extent of their contributions. Joint-venture contracts must be in writing, but they need not be recorded at the Public Registry of Commerce. Public notice of formation of the joint venture is also not required. For Mexican income tax purposes, the A en P is considered a taxable entity when it performs business activities in Mexico.

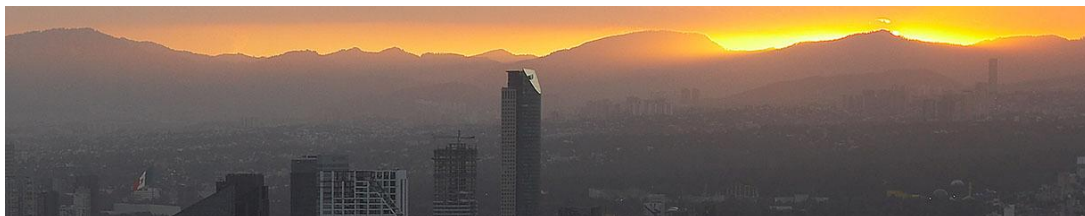
### **Branches of foreign companies**

Foreign companies may establish a branch in Mexico by performing the following:

- ▶ Obtain prior authorization from the Ministry of Economy, which may be obtained easily;
- ▶ Register the bylaws of the foreign head office with the Public Commerce Registry;
- ▶ Register with the National Foreign Investment Registry; and
- ▶ Obtain a federal taxpayer identification number.

Except for not being required to register before the Public Commerce Registry and with the National Foreign Investment Registry, representation offices shall follow the same procedure applicable to the Branches.

Branches are subject to federal corporate income tax and generally have the same obligations as Mexican corporations. In addition, branches are subject to tax if they pay dividends from sources other than from a "net taxed profits" account, which is a cumulative earnings account for profits on which income tax has already been paid.



### Structures most often used by foreign investors

The forms of enterprise most commonly used by Mexican and foreign investors are the S.A. or its variant, the S.A. de C.V. and, under certain conditions, the S. de R.L. and S. de R.L. de C.V. partnerships.

## C.2 Mergers and acquisitions

Mexico's antitrust law requires that any and all transactions (mergers, transfer of equity) including transactions between related parties, with a value that exceeds the parameters mentioned below, shall be reported in advance to the Federal Competition Commission (CFC):

A transaction value of at least 18 million times the general minimum daily wage (GMDM) in effect in Mexico City; (as of January 1, 2009 the GMDM was MXN\$54.80)

If the overall transaction, whether in a single act or a succession of acts, entails the accumulation of 35% or more of the assets or shares of an economic agent, the value of those assets or sales is greater than the equivalent of 18 million times GMDW; or if two or more economic agents take part in the transaction, and whether separately or together:

- ▶ The value of their assets or annual sales volume is greater than the equivalent of and 48 million times GMDW, and
- ▶ The transaction entails an additional accumulation of assets or capital stock greater than the equivalent of 8.4 million times GMDW

The CFC has 35 calendar days to approve a transaction, forbid it or impose performance conditions. If the CFC fails to respond within the 35 day period, the transaction is deemed authorized. Certain exceptions may extend the response period to more than 35 days.

Notwithstanding the aforementioned, an analysis and information may be filed to demonstrate to the CFC that it is notorious meaning that the concentration will not diminish, harm, or obstruct the competition.

The CFC has 15 calendar days to approve that a transaction is notorious or else, to forbid it or impose specific performance conditions for its implementing. If the Commission fails to respond within the 15 day period, the transaction is deemed authorized.

In the event that the CFC considers that the concentration is not notorious as mentioned in the paragraph above, the CFC will issue a notification to restart the process for obtaining an authorization within the following 35 calendar days.

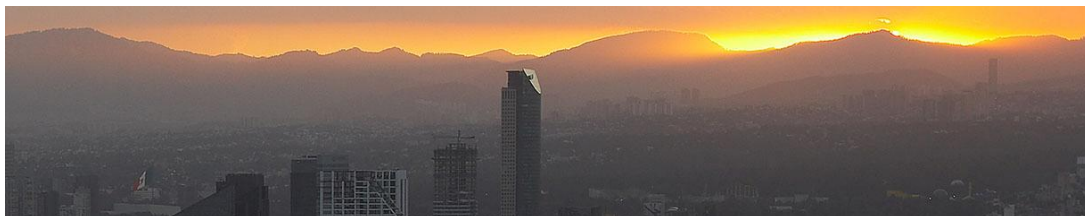
In the event of transactions that result from reorganizations among companies of a corporate group and previous compliance with provisions in the Regulations to the Antitrust Law in Mexico, a post-completion notice shall be filed before the CFC.

In addition, specific provisions of Mexican corporate and tax laws govern mergers and reorganization, including spin-offs. For example, a decision to merge must be made at a special shareholders' meeting, and the resolutions adopted must be announced publicly in newspapers. Creditors must also consent to the merger. For details regarding tax treatment of certain merger transactions, see Section C.7.

### C.3 Corporate taxes at a glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	0
Interest	
Paid on Negotiable Instruments	10 (b)
Paid to Banks	10 (b)(c)
Paid to Machinery Suppliers	21 (b)
Paid to Others	30 (a)(b)
Royalties	
From Patents and Trademarks	30 (a)(b)
From Know-how and Technical Assistance	25 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	Not permitted
Carryforward	10

- a) This rate will be reduced to 29% in 2013 and 28% in 2014 and subsequent years
- b) Final tax applicable to nonresidents. Payments to tax havens that are related parties are generally subject to a 40% withholding tax.
- c) A reduced rate of 4.9% is granted each year to interest payments to tax treaty banks.



## C.4 Taxes on corporate income and gains

### Corporate income tax

Corporations resident in Mexico are taxable on their worldwide income from all sources, including profits from business and property. A nonresident corporation in Mexico is subject to tax on income earned from carrying on business in Mexico. Corporations are considered residents of Mexico if their principal place of management is located in Mexico.

Corporations are taxed in Mexico only by the federal government. Mexico has a general system for taxing corporate income, ensuring that all of a corporation's earnings are taxed only once, in the fiscal year in which the profits are obtained.

The income tax law recognizes the effects of inflation on the following items and transactions:

- ▶ Depreciation of fixed assets;
- ▶ Cost on sales of fixed assets;
- ▶ Sales of capital stock (shares);
- ▶ Monetary gains and losses;
- ▶ Tax loss carryforwards; and
- ▶ Investment in capital stock may be indexed at the time of capital stock reductions or liquidation. Taxes are also indexed for inflation in certain circumstances.

### Rates of corporate tax

Corporate taxable income is subject to federal corporate income tax at a rate of 30%. It is already enacted by law that the rate will be reduced to 29% in 2013, and to 28% in 2014 and subsequent years.

For a sample corporate tax calculation, see Appendix 6.

### Flat rate business tax

Flat Rate Business Tax (Impuesto Empresarial a Tasa Unica, or IETU) has been introduced as a minimum tax to replace the Minimum Tax on Assets in 2008. The rate of IETU is 17.5%. This tax is levied on broader taxable income and on a cash basis rather than an accrual basis. The tax applies only to Mexican residents and to nonresidents that have a Permanent Establishment in Mexico.

IETU is levied on the difference between cash collections from the sale of goods, rendering of services and rental of property and cash payments for the acquisition of goods, services and rentals. Income tax paid can be credited against the IETU. Certain types of expenses are not deductible. Other types of expenses are not deductible but may be credited against the tax calculated. IETU paid in excess of income tax for any tax year cannot be carried over.

### Tax incentives

Tax reductions are available to corporations engaged in agriculture, stockbreeding, forestry or fishing activities. Accelerated depreciation is available for certain types of capital investment, such as machinery and equipment, starting the year in which the investment is made

A tax incentive is granted on Research and Development ("R&D) expenses and investments meeting certain requirements.

Other federal tax incentives are generally granted in the Mexican tax law and/or through Presidential Decrees. Local tax incentives may be negotiated directly with local tax authorities.

### Adjustments for inflation

Because the inflation rate in Mexico had been frequently high, special provisions were enacted to eliminate its effect on tax liabilities. The basis of capital assets is adjusted before a taxable capital gain is determined, and only the portion of interest paid or earned and exchange gains and losses on foreign-currency transactions that exceed inflation are deductible or taxable. Since the inflation rate in Mexico has been low for the past years, the computation of inflation gain or loss has been simplified, but with the same effects.

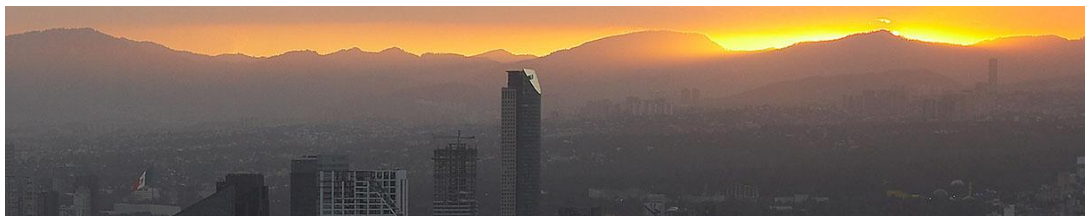
### Dividends

Dividends paid to resident and nonresident shareholders from a Mexican corporation are not subject to further corporate income tax if the earnings were already subject to tax and the distributing corporation has sufficient cumulative earnings in its "net taxed profits" account (CUFIN) to cover the dividends. If the CUFIN amount is not sufficient, the dividends are taxed at the corporate level at a rate of 30%. The following is an illustration of how to compute the net taxed profit for the CUFIN account.

	Mex\$
Corporate taxable income	1,000
Income tax (30%)	(300)
Nondeductible profit sharing to employees (estimated)	(150)
Nondeductible expenses	(50)
Net taxed profits (not subject to corporate income tax on distribution)	500

The income tax paid on distributions may be credited against the regular corporate income tax for the three years following the payment.

Similar rules apply to remittances abroad by branches of foreign corporations.



### **Capital gains and losses**

Mexican tax law treats capital gains as ordinary income and taxes them at the regular corporate tax rates. However, to determine the deductible basis for sales of real estate, fixed assets and shares, the law allows for indexation of the original cost for inflation. Furthermore, capital losses derived from shares and certain equity derivatives may only offset capital gains from similar transactions obtained in the same or following five tax years.

### **Administration**

The tax period always ends on December 31 and may not exceed 12 months. An annual tax return must be filed by the following March 31. Monthly tax installments must be paid during a corporation's tax year.

### **Foreign tax relief**

A direct and indirect tax credit is allowed for foreign income taxes paid by Mexican corporations, but is limited to the Mexican tax on the foreign-source portion of a company's worldwide taxable income.

Mexico has entered into double tax treaties with many countries. For a table of withholding tax rates under these treaties, see Appendix 7.

## **C.5 Determination of taxable income**

### **Starting Point for Determining Taxable Income**

Taxable profits are computed in accordance with generally accepted accounting principles, with the following exceptions:

- ▶ Penalties and unauthorized donations may not be deducted;
- ▶ Increases to reserves for bad debts, obsolescence, contingencies and indemnities may not be deducted (however, these may be deductible when paid and/or other conditions are met);
- ▶ Monetary gain on liabilities and monetary loss on assets, to recognize the effect of inflation, may not be deducted
- ▶ Certain payments may not be deducted.
- ▶ Transactions that are not properly documented with supporting documents are not deductible

Beginning in 2006, the mandatory employee profit sharing (see Section C.6) is deductible when paid.

## Deductions

### Inventories

Instead of deducting the normal cost of sales, determined under Mexican GAAP, cash outflows for inventory purchases, labor costs and overhead expenses are deductible for tax purposes each fiscal year. Beginning 2005, cost of goods sold determined under generally accepted accounting principles is deductible for income tax purposes.

### Depreciation and amortization allowances

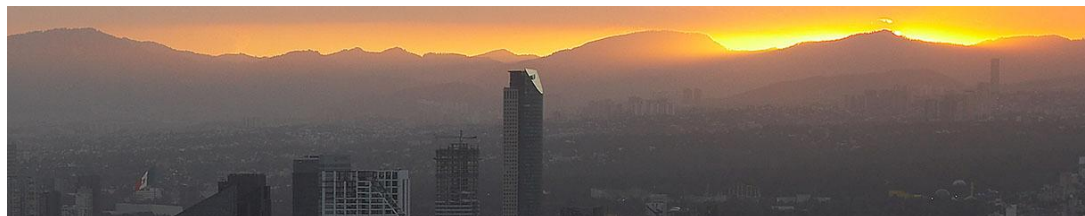
The straight-line depreciation method is used to depreciate tangible fixed assets and to amortize intangible assets. Depreciation must be computed using the maximum annual percentages set by law. The depreciation of new assets must be computed on a proportional basis relating to the months in which the assets are used. Depreciation is computed on the original cost of fixed assets, with the amount of depreciation indexed for inflation, as measured by price indices.

The following are the maximum annual depreciation rates for certain types of assets.

Asset	Rate (%)
Buildings	5
Motor vehicles	25
Office equipment	10
Computers	
Mainframe equipment	30
Peripheral equipment	30
Plant and machinery	10
Environmental machinery and equipment	100

Taxpayers may opt, as a tax incentive, to take an accelerated deduction for a percentage of their total original investment instead of calculating depreciation based on the useful lives of the assets. However, this option is not available for certain assets and in certain geographic areas. In addition, this option can be taken in the year the investment is made, in the year the assets is started to be used, or the following year. **Restrictions on interest deductions**

Mexico used to not impose debt-to-equity requirements, because of inflation adjustments; however, starting in 2005 there is a 3 to 1 equity ratio requirement.



### Relief for losses

Tax losses may be carried forward for 10 years, indexed for inflation, but may not be carried back.

### Transfer pricing

Under Mexico's transfer-pricing rules, acceptable transfer pricing methods include the comparable uncontrolled price method, resale price method, cost-plus method, profit-split method, residual profit-split method and transactional net-margin method. In certain cases, specific appraisals are used. Transactions between related parties are subject to greater scrutiny.

Transfer pricing agreements may be reached with the tax authorities in advance. These agreements may apply for a period of up to five years.

Based on the Mexican transfer pricing rules, a transfer pricing study must be supported on arm's length principle.

### Consolidated returns

A Mexican holding company has the option to file a consolidated return only for Income Tax purposes (not permitted for FRBT purposes), including the tax results of its Mexican subsidiaries, subject to several rules and limitations.

## C.6 Other significant taxes

The following table summarizes other significant taxes.

Nature of Tax	Rate (%)
Value-added tax, on any supply of goods or services, excluding exports, and on imports:	
General rate	16
Border regions	11
Certain foods and medicines	0
Real estate acquisition tax; local or state tax on market value of real estate transferred	From 2 to 4.5
State tax on Salaries	Generally 2, 2.5 for the State of Mexico
Housing tax, on each employee's salary (approximate rate)	5
Employee profit sharing, on taxable profits excluding the effect of inflation (tax loss carry forwards may not be deducted)	10
Social security contributions, on salaries up to a specified amount; paid by	
Employer (approximate rate)	15
Employee (approximate rate)	4

## C.7 Mergers transactions

Regarding merger transactions, a surviving company, but not the merged company, may carry forward its tax losses. For tax purposes, assets are normally carried on the books of the surviving corporation at the tax value they had in the predecessor corporation. For accounting purposes, the net assets acquired are generally recognized at their fair values. Mergers and spin-offs generally do not constitute taxable events for shareholders if certain requirements are met. The accounting for such transactions depends on the facts and circumstances.

## C.8 Financial reporting and auditing

### Sources of accounting principles

#### **Mexican Financial Reporting Standards Research and Development Board (Consejo Mexicano de Normas de Información Financiera or CINIF)**

The CINIF is recognized as the principal authority for issuing financial reporting standards in Mexico (Mexican FRS). The CINIF issues pronouncements on accounting and reporting standards and updates them whenever necessary. Although the National Banking and Securities Commission (CNBV) has the legal authority to establish accounting and reporting standards for companies listed on the Mexican Stock Exchange, in practice, it has relied on the CINIF and its pronouncements.

Before an accounting standard is issued, an exposure draft is released for comment. Opinions and recommendations received during the comment period from public accountants, representatives of industries, and different agencies and associations are considered before the CINIF finalizes its pronouncement. If no significant objections are received, necessary adjustments are made, and the CINIF approves the pronouncement.

#### **National Banking and Securities Commission and National Insurance and Bonding Commission**

The CNBV and the National Insurance and Bonding Commission (CNSF) are statutorily authorized to issue accounting and reporting standards for the companies they regulate. Banking, stock brokerage houses, investment funds, financial leasing, factoring and other financial institutions are subject to regulations issued by the CNBV. Insurance and bonding companies are subject to regulations issued by the CNSF.

The primary differences between the accounting practices established by the CNBV and MFRS refer to valuation of repurchase transactions (repos) and nonconsolidation of nonfinancial subsidiaries.

The accounting practices issued by the CNSF differ from Mexican FRS primarily in the following areas: partial recognition of inflationary effects and deferred taxes; certain capital reserves shown as liabilities; the equity method used for investments instead of consolidation; and the assumptions used for determining employee compensation at retirement.

In addition, companies with securities listed on the Mexican Stock Exchange must comply with several disclosure requirements issued by the CNBV.



## International Financial Reporting Standards (IFRS) and Other Sources

Although the CINIF has committed to achieve the conversion of Mexican FRS with IFRS, some differences exist. Mexican FRS requires the application of IFRS whenever Mexican FRS are silent on a particular subject. Under Mexican FRS, the first requirement is to look to IFRS for guidance in determining the appropriate accounting approach. If neither Mexican FRS nor IFRS address the subject, GAAP in other countries may be followed. In such circumstances, U.S. GAAP is the source that most frequently supplements Mexican FRS.

## Disclosure requirements

Under the Mexican Corporations Act, Mexican companies must prepare the following financial statements:

- ▶ A report from the director or board of directors on the results of the business and the policies followed.
- ▶ The primary financial statements, which include a balance sheet, statement of income, statement of changes in shareholders' equity and statement of changes in financial position, as well as related notes. In most circumstances, these statements are audited.
- ▶ A report by the statutory auditor (*comisario*) on the fairness of the information included in the financial statements. (Mandatory for *Sociedades Anónimas*, while for *Sociedades de Responsabilidad Limitada* and other forms of entities, only require it if statutorily provided)

. Companies listed on the Mexican Stock Exchange, government-owned companies, companies in the finance and insurance sectors, and most other companies that exceed a certain minimum size must have their annual financial statements audited. The financial statements of publicly held companies must comply with the CNBV's requirements. These statements include the presentation of audited comparative financial statements for two years.

See section C.9 regarding the presentation of financial statements in accordance with IFRS.

## Reporting requirements

The financial statements must be presented at the annual shareholders' meeting and approved by the shareholders.

All companies under a S.A. form of organization must have a statutory auditor (*comisario*) appointed by the shareholders. Because of the statutory auditor's functions and responsibilities, this person is usually an independent public accountant, and generally a representative of the company's independent auditing firm. The statutory auditor may not be an employee or executive of the company. Each year, the statutory auditor issues a report stating whether the financial statements have been prepared in accordance with Mexican FRS. The statutory auditor also confirms whether the company's board of directors has informed the shareholders of all significant matters. Professional auditing standards require that a public accountant acting as a statutory auditor rely on an annual examination conducted in accordance with generally accepted auditing standards.

## Filing requirements

Based on the tax code, by June 30, companies meeting the threshold requirements to conduct an independent audit must file a "tax report" with the tax authorities for the past fiscal year. This tax report must be sent by electronic form and include the audited financial statements, auditor's tax compliance report on the review of compliance with federal tax obligations and supplementary exhibits to the financial statements. Companies that file such tax reports may reduce their chance of direct examination by the tax authorities. All companies filing a consolidated tax return must present audited consolidated financial statements.

## **Books and records**

All Mexican corporations must maintain detailed accounting records in Spanish using Mexican pesos. Mexican companies must maintain the following: a general ledger; a general journal; an "inventories and trial balances" record; books recording minutes of board of directors' and shareholders' meetings; a record of investments in shares; a record of debts in foreign currency, credits and cash; and a record of registered shares. The principal books and records, together with all supporting documentation, must generally be maintained at the official domicile of the business and remain available for 10 years.

The Mexican Corporations Act and the Income Tax Law only include general accounting requirements and do not specify the form or content of the books and accounts that a company must maintain. Each company is required to keep the records necessary to support the amount of gross income, deductions and tax credits in the taxpayer's Mexican income tax return on an accrual basis. Management determines the exact form of the records.

## **Audit requirements**

Companies listed on the Mexican Stock Exchange, government-owned companies and companies in the finance sector that are regulated by the CNBV or the National Insurance and Bonding Commission, such as banks and brokerage firms, are required to have independent auditors perform annual audits of their financial statements. In addition, companies meeting any of the following threshold requirements must have independent auditors conduct annual audits and file a tax report. The following figures are valid as of January 1, 2011:

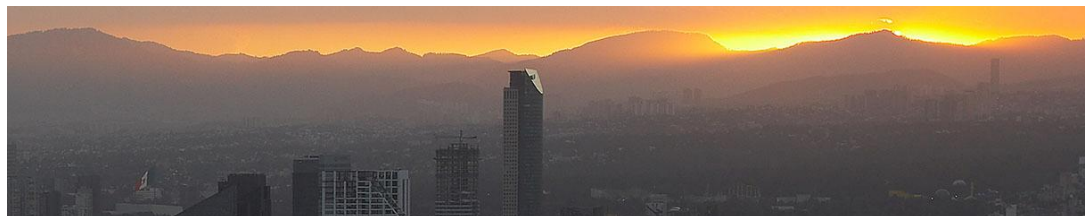
- ▶ Annual revenues of at least Mex\$34,803,950
- ▶ Total assets of at least Mex\$69,607,920; or
- ▶ Three hundred employees or more during each month of the preceding year.

Annual audits are required in the year after a company reaches any of the above conditions.

Audited financial statements are presented at the annual shareholders' meeting, to the tax authorities, and if the company is publicly held, to the CNBV.

Audit of financial statements prepared under Mexican FRS are conducted under Mexican Generally Accepted Auditing Standards (GAAS), including those filed to the tax authorities along with a tax compliance report. These reports are filed electronically with the tax authorities via the internet.

When a company has lost two thirds of its capital, a going concern paragraph has to be attached to the report, because it is considered technical bankruptcy. In the worst case scenario, the audit opinion may be modified.



## C.9 IFRS (International Financial Reporting Standards)

In the face of the fundamental need of having internationally accepted standardized accounting standards that allow for the understanding, comparison and analysis of financial information anywhere in the world, the Official Gazette published the regulatory modifications to the General Provisions Applicable to Securities Issuers and Others who Participate in the Securities Market (Circular Única for Issuers), which require Mexican issuers to prepare and disclose their financial information based on IFRS as of December 31, 2012. Also, guidelines have been established for the early adoption of these standards by Mexican issuers who wish to do so.

Given that the adoption of International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), is compulsory in Mexico for the year ending December 31, 2012, these modifications will place Mexican and foreign issuers who list securities in Mexico at the same level with international requirements pertaining to the disclosure and transparency of financial reporting.

### **Certain modifications of the Circular Única for issuers are as follows:**

#### **Mexican companies**

- ▶ The financial statements must be filed in a consolidated manner, considering the special purpose entities or, if any, they must also specify which of these entities are consolidated and which are not.
- ▶ The financial statements must be prepared in conformity with IFRS as issued by the IASB and must be audited by an external auditor. The audit and audit report must be prepared in accordance with International Auditing Standards, as issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants.
- ▶ With respect to unregulated full-service financial institutions, the preparation of their financial statements shall be made in conformity with the provisions applicable to credit institutions.

The financial statements of entities that belong to the financial system must be prepared and audited in conformity with the accounting standards governed by the competent Mexican authorities (MBSC, NIBC, National Retirement Savings System Commission, etc.).

#### **Fundamental concepts**

Certain general principles apply to financial statements. Unless otherwise stated, an entity is assumed to be a going concern. Assets are generally carried at the lower of cost or net realizable value, except for nonmonetary assets that were restated for inflation (see *Accounting for Inflation*). In conformity with the accrual method, revenues are recognized when realized, and expenses are accounted for when incurred. Accounting policies must be applied consistently from one period to another; if not, the change should be disclosed.

Significant accounting concepts for investors are described below.

#### **Inflation**

MFRS B-10, Effects of Inflation, issued by the CINIF, requires all companies to restate nonmonetary assets and liabilities, equity accounts and income statement items to account for the effects of inflation when cumulative inflation for the past three years is 26%. The method used to restate recognize the effects of inflation in the financial information is the integral method.

Under this method, nonmonetary items have to be restated and presented in constant-peso amounts. The original cost is restated using the national consumer price index (INPC). Monetary items are not restated; however, they generate a gain or loss in its purchasing power due to inflation. The monetary gain or loss represents the effects of inflation on a company's monetary position during a particular time period. It is included in the income statement as part of the "comprehensive cost of financing", which incorporates interest, exchange gains or losses, and monetary gains or losses. This procedure is used to measure the comprehensive cost of financing in an inflationary environment. Under Mexican GAAP, capitalization of the comprehensive cost of financing fixed assets under construction is allowed, but is not required.

All financial statements must be expressed in constant-peso terms at the end of the year. This presentation means that items, including sales and operating expenses, must be re-expressed in terms of the purchasing power of the Mexican peso at the end of the year. Comparative financial statements are required and thus prior year amounts must also be restated in the constant-peso value at the end of the last year reported.

### **Leases**

Leases that substantially transfer the benefits and risks of ownership are accounted for as acquired assets and incurred liabilities. Other leases are accounted for as operating leases. The accounting rules for leases are similar to those under U.S. GAAP and IFRS.



## D. Individuals

### D.1 Income tax

#### Who Is Liable

Resident individuals are taxed on worldwide income. Nonresidents are taxed on Mexican-source income only.

Individuals who establish their home in Mexico are considered residents.

Resident status does not depend on the number of days an individual remains in Mexico during a calendar year. If individuals also have a home in another country, they are considered residents in Mexico if their center of vital interests is located in Mexico. An individual's center of vital interest is considered to be located in Mexico in the following circumstances:

- ▶ More than 50% of the individual's income in a calendar year is derived from Mexican sources; or
- ▶ The center of the individual's professional activities is located in Mexico.

Individuals who break residency ties with Mexico must notify the tax authorities within 15 working days before such change in their status and no later than a month following the change of residency. For this purpose, they must designate a legal representative in Mexico.

#### Income Subject to Tax

##### **Employment income**

Taxable employment income includes salaries, wages, directors' fees, bonuses, gratuities, allowances, certain fringe benefits, benefits in kind and statutory employees' profit-sharing distributions.

Nonresidents who receive salaries paid by resident employers or by employers with permanent establishments in Mexico are subject to withholding tax as described in Rates, page 42. Salary income and income for personal services paid by a nonresident individual or company are exempt from the withholding tax if the services are not related to the nonresident payer's permanent establishment in Mexico (or if the nonresident payer does not have a permanent establishment) and if the services are provided for fewer than 183 days in a 12-month period. If services are provided for more than 183 days, the nonresident rates apply.

##### **Self-employment and business income**

A self-employed individual, who earns income from business activities or professional services, including real estate rental activities, is subject to tax at the applicable rates established in the Law and published by the tax authorities (please refer to page 42).

Professional fees paid by a Mexican resident to a nonresident for services rendered in Mexico are subject to withholding tax at a rate of 25%. If the services are rendered only partially in Mexico, income tax is payable on the portion of the income related to the services rendered in Mexico.

### **Investment Income**

A company resident in Mexico that distributes dividends is subject to a 30% tax payment to the extent that such company has not already paid the tax on the underlying income. Dividends must be included in a resident's taxable income. The corporate tax paid is credited against the resident's final tax liability. Dividends paid by foreign resident entities to Mexican resident individuals are included in their taxable income and taxed at the rates set forth in *Rates*, page 51.

Interest on time deposits with Mexican banks and on publicly issued debentures is subject to a provisional 0.85% withholding tax on the capital invested that originated the interest. Interest derived from investments in other entities (other than publicly issued debentures) is subject to a 20% withholding tax on the total interest payment. Individuals accrue as taxable income the real interest earned during the fiscal year. Real interest is equal to the amount by which interest exceeds the inflationary adjustment effects of the tax year.

Income received by nonresidents from the rental of real and personal property is subject to a 25% withholding tax.

Royalties received by nonresidents for the use of trade names, trademarks, patents or certificates of invention are subject to a 30% withholding tax. Fees received by nonresidents for technical assistance and know-how are subject to a 25% withholding tax. Lower rates may apply under certain tax treaties (see Appendix 7).

### **Directors' Fees**

Directors' fees received by Mexican residents from Mexican or foreign companies are subject to income tax at the rates set forth in *Rates*, page 42. Payments to nonresidents are subject to a 25% withholding tax.

### **Exempt Income**

Mexican resident individuals may exclude the following items from their taxable income:

- ▶ Indemnities for accidents and illnesses;
- ▶ Retirement benefits and pensions provided by public institutions (private retirement plans are partially exempt);
- ▶ Reimbursement of medical, dental, hospital and funeral expenses;
- ▶ Social security benefits paid by public institutions;
- ▶ Savings funds;
- ▶ Travel expenses; and
- ▶ Social welfare payments or fringe benefits.

Certain exemptions are subject to limitations and specific requirements.



### **Taxation of employer-provided stock options**

Employer-provided stock options are taxed at the time of exercise on the difference between the exercise price and the fair market value of the stock. The income is taxed at the tax rates set forth in *Rates*, page 42. Gains derived from the subsequent sale of the stock are subject to tax as capital gains as set forth in *Capital Gains and Losses*.

### **Capital gains and losses**

In general, gains derived from the sale of shares and real estate are treated as capital gains. Capital gains are not subject to a separate tax, but are included in ordinary income and taxed at the rates set forth in *Rates*, page 42. The gain calculation includes adjusting cost for inflation.

Gains derived from shares sold on the Mexican stock exchange are exempt from tax if the taxpayer does not trade more than 10% of the paid-in stock of the listed company within a period of 24 months. A gain derived from the sale of a personal residence is exempt from tax if the amount of compensation obtained does not exceed 1,500,000 Investment Units (Mex\$ 6,276,474). Such limit shall not apply if taxpayers demonstrate that they have been living in the residence for at least the last five years preceding the date of the sale.

Capital gains derived from transfers of shares and real estate is taxed using an income-averaging method. The taxable gain is calculated separately for each asset and then divided by the number of years the asset was held, up to a maximum of 20 years. The resulting amount is added to other taxable income. After the graduated marginal tax rates are applied to this total, the average rate is then applied to the balance of the capital gain. Income averaging does not apply to capital gains derived from transfers of real property used in a trade or business; these gains are added to business income.

Although computed the same way, capital losses are treated differently. The tax benefit for the year in which a total loss is incurred is limited to the amount of tax on the total loss, divided by the number of years the underlying asset was held, up to a maximum of 10 years. That amount is deductible from the individual's gain on the sale of other assets or from other income, except for salary and business income. The remaining loss may be carried forward for three years, but only against capital gains derived from the sale of shares or real estate.

Nonresident taxpayers with capital gains from the disposal of shares or real estate may elect to pay tax on the gross amount at a rate of 25% or on the net amount at a rate of 30% by filing a tax return with the Mexican tax authorities and meeting other requirements.

## Deductions

### Personal deductions and tax credits

Resident individuals are granted the following annual personal deductions paid to Mexican residents:

- ▶ Payments for medical, dental and hospitalization services for a taxpayer and his or her dependents;
- ▶ Insurance premiums for medical coverage;
- ▶ Certain interest on qualified mortgage loans;
- ▶ Investments in public retirement and pension funds;
- ▶ Payments for the school bus transportation of dependent children, if required by local law;
- ▶ Funeral expenses, limited to annual minimum salary; and
- ▶ Certain gifts to public works or utilities, charitable or welfare institutions, and promoters of the arts or culture; and
- ▶ Voluntary contributions made to the individual retirement account, limited to five times the annual minimum salary.

### Business deductions

Normal expenses, including cost of sales salaries, fees, rent, depreciation, interest and other general expenses may be deducted from the net amount of gross revenue to compute taxable income. Instead of deducting actual expenses, individuals with rental income may elect to deduct an amount equal to 35% of rental income.



## Rates

Residents. The *monthly* income tax rates in the following table are effective from January 1, 2011 and are adjusted every now and then for inflation (when the cumulative inflation is greater than 10%).

Monthly Taxable Income			
Taxable Income		Tax on Lower Amount	Rate on Excess
From	To		
Mex\$	Mex\$	Mex\$	%
0	496.07	0	1.92
496.08	4,210.41	9.52	6.40
4,210.42	7,399.42	247.23	10.88
7,399.43	8,601.50	594.24	16.00
8,601.51	10,298.35	786.55	17.92
10,298.36	20,770.29	1,092.62	21.36
20,770.30	32,736.83	3,327.42	23.52
32,736.84		6,141.95	30.00

The following table sets forth the 2011 *annual* tax rates for resident individuals.

Annual Taxable Income			
Taxable Income		Tax on Lower Amount	Rate on Excess
From	To		
Mex\$	Mex\$	Mex\$	%
0	5,952.84	0	1.92
5,952.85	50,524.92	114.24	6.40
50,524.93	88,793.04	2,996.76	10.88
88,793.05	103,218.00	7,130.88	16.00
103,218.01	123,580.20	9,438.60	17.92
123,580.21	249,243.48	13,087.44	21.36
249,243.49	392,841.96	39,929.04	23.52
392,841.97		73,703.40	30.00

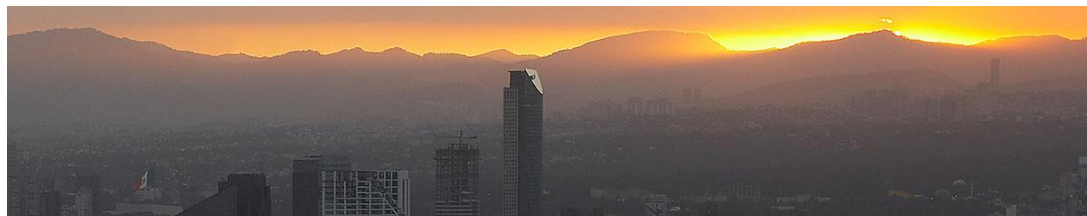
For a sample income tax calculation for a Mexican resident individual, see Appendix 8.

*Nonresidents.* For salaries paid by resident employers or by employers with permanent establishments in Mexico, the following rates of withholding tax are in force as of January 1, 2009.

Taxable Income		Tax on Lower	Rate on
From	To	Amount	Excess
Mex\$	Mex\$	Mex\$	%
0	125,900	0	0
125,900	1,000,000	0	15
1,000,000	-	131,115	30

#### **Relief for losses**

Losses incurred in business and professional activities may be carried forward for 10 years against earnings of the same type of income and are restated for inflation.



## D.2 Other taxes

### Flat rate business tax

Flat-rate business tax. The 2008 tax bill introduced a flat-rate business tax (impuesto empresarial a tasa única, or IETU). IETU replaced the asset tax as a minimum alternative tax. The IETU tax rate is 17.50% on income from self-employment, and rental of properties.. Income and deductions for IETU purposes are determined on a cash basis.

The tax base for IETU purposes is calculated by subtracting certain deductions (in general, payments effectively made in cash and attributable to purchases of goods and services and payments of rent) from taxable income from the sale of assets, rendering of services and the rental of property. Dividends, interest, royalties with unrelated parties and income from financial derivative transactions are generally not included in the IETU base. As a result, these items are neither taxable nor deductible.

Deductions are allowed if an item is used for carrying out activities subject to IETU or to manage such activities or if an item is used in the production, sale or distribution of goods and services and such activities result in income subject to IETU.

The IETU rate is applied to the tax base described above. The resulting amount is then reduced by certain tax credits. If allowable deductions in a year are greater than income for IETU purposes, the taxpayer is granted a tax credit that may be carried forward for ten years and applied against future IETU tax liabilities. The amount of the tax credit equals the excess of the allowable deductions over income received multiplied by the IETU tax rate for the year. An excess amount could also occur in years in which the taxpayer spends a high level of capital expenditures, because capital expenditures effectively paid are deductible for IETU purposes, as opposed to depreciation for income tax purposes.

The IETU Law provides for a tax credit equal to the amount calculated by applying the IETU rate to the amount of taxable salaries paid, including social security contributions. This is beneficial for taxpayers paying salaries and wages that are subject to an effective income withholding tax rate that is lower than the IETU rate. If not fully used, this credit may not be carried forward.

A tax credit is also granted for the income tax paid by the taxpayer during the fiscal year. Also, monthly estimated payments of IETU must be made during the fiscal year, and tax credits for these payments are allowed when calculating the annual amount of IETU.

### Estate tax

No estate or inheritance tax is levied, except for a local real estate property tax.

### Gift tax

Gifts or donations from direct line (ascendant or descendent) are exempt from income tax if certain requirements are met.

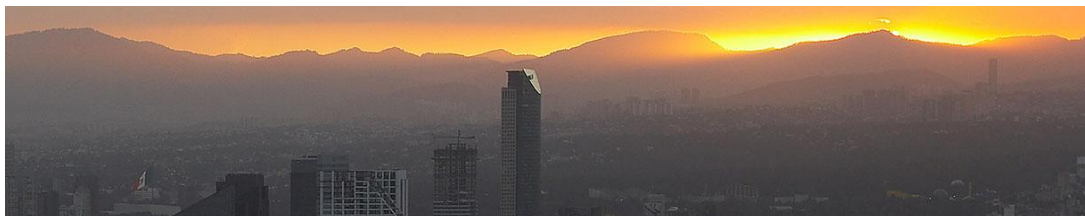
### D.3 Labor regulations

It is important to mention that, in order to comply with Labor regulations in Mexico, companies that wish to invest in Mexico, must take into consideration, among other things, the following:

- ▶ Analyze the location where the company will be set up, the specific characteristics of the Trade Union environment, as well as the working conditions;
- ▶ If applicable, execute a Collective Bargaining Agreement with the Trade Union of the production branch of the Company's main line of operation;
- ▶ Execute the Individual Labor Agreements with the employees to be hired;
- ▶ Register the employees before the Mexican Social Security Institute;
- ▶ Pay Social Security taxes and fees;
- ▶ Observe the law regarding the legal ceiling for the number of foreign workers that may work for a company in the country, as established by the Federal Labor Law;
- ▶ Organize Training and Education Programs as required by the law; fit out factories, workshops, offices and other locations following security and hygiene principles to avoid risks and harm to the workers at the place of work;
- ▶ Comply with the provisions of security and hygiene established by the laws, rules and regulations to avoid work accidents and disease at the place of work;
- ▶ Prepare the Internal Labor Regulations of the Company, which govern the working environment of companies in Mexico;
- ▶ Register before the relevant labor authority the Company's Internal Labor Regulations;
- ▶ Register before the relevant labor authority the Collective Bargaining Agreement;
- ▶ Register before the authorities the Training and Education Programs.
- ▶ On July 9, 2009 were published in the federal official gazette reforms and additions to the social security act, which modify the treatment gave to the employers which hire employees to provide services to an individual or a company (beneficiary of the services) in their facilities and under their instructions (figure is known as Outsourcing) the beneficiary of the services will assume the liabilities pursuant to social security act in connection to such employees in the case that the employer omitted the payment of such liabilities and as long as the Mexican Social Security Institute has notify the beneficiary of such omission.

#### Employee benefits

The Mexican Federal Labor Law ("FLL") applies to all employees in Mexico regardless of their nationality or place of entering into the employment agreement.



## Minimum wage

The FLL establishes a minimum amount of money that the employers should pay in cash to their employees on a weekly or biweekly basis, without any deductions or withholdings. Such minimum wage is determined every year by the National Minimum Wage Commission.

Mexico is divided in three economic regions and the daily minimum wage varies for each of these regions.

The economic regions for purposes of the minimum wage for the year 2011 are:

- ▶ Economic Region "A", with a daily minimum wage of MxP\$ 59.82
- ▶ Economic Region "B", with a daily minimum wage of MxP\$ 58.13
- ▶ Economic Region "C", with a daily minimum wage of MxP\$ 56.70

A minimum wage applies to all employees within an economic region, except those that fall within a series of specific categories.

## Maximum working hours

The maximum number of hours an employer should ask the employees to work, without being obligated to pay overtime, is 48 hours per week. Employees may work in three different shifts, day shift, night shift and mix shift. The number of hours per day depends on the work shift of each employee. The maximum hours for the day shift are 8 hours, seven hours for the night shift, and seven and a half hours for the mix shift. During the work shift, the employee must be granted with a rest of at least 30 minutes.

Employees shall be entitled to at least one day of rest per week. In some cases, the normal work hours may be distributed throughout the week as necessary; most employees distribute them in five days in order to have an extra day of rest.

## Overtime payment

In the event that the employees had to work more hours than their regular shift, the employer must pay the first nine hours of overtime (these hours are computed on a weekly basis) at 200% of the standard pay per hour, and overtime exceeding the nine hours at 300% of standard pay per hour. Sunday work is subject to premium equal to a 25% of the wage, regardless of any overtime premium that may apply, whenever Sunday is part of the regular working week. In case that Sunday is not part of the regular working week (day of rest), it should be paid at 200% of the standard pay per hour.

## Year-end or Christmas bonus

All employers must pay their employees a year-end bonus equal to at least fifteen days of wages. Such bonus must be paid before December 20th of each year.

## **Paid holidays**

The following are the legal paid holidays which must be observed:

- ▶ January 1st (New Years Day);
- ▶ The first Monday of February (in exchange for the 5th of February);
- ▶ The third Monday of March (in exchange for the 21st of March);
- ▶ May 1st;
- ▶ September 16;
- ▶ The third Monday of November (in exchange for the 20th of November);
- ▶ December 1st (every six years upon inauguration of a new president);
- ▶ December 25th ;
- ▶ Special dates that the electoral laws may designate.

## **Vacations**

Employees with more than one year of seniority are entitled to six days of paid vacation. Such six-day period is increased by two days per subsequent year of seniority up to twelve days. After the fourth year, minimum paid vacation period is increased every five years of services thereafter.

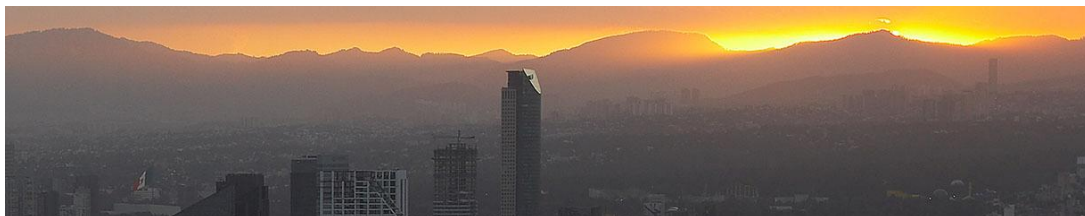
## **Vacation premium**

Vacation days, as set forth above, shall be paid to the employee plus an additional 25% premium of the employee's normal wage.

## **Mandatory employee profit sharing**

As of the second year of operations, all employers must distribute among their employees an amount equal to ten percent (10%) of the employer's profits; such percentage is established by the National Commission of Companies' Profit Sharing. This ten percent must be calculated on a pre-tax basis.

Fifty percent (50%) of such ten percent is to be distributed in proportion to the number of days worked by each employee along the year. The other fifty percent is to be distributed according to each employee's wage.



Profit sharing must be paid to the employees within 60 days after the employer is required to file its annual income tax return March 31. Certain managerial employees, such as directors, managers and administrators, are not entitled to such profit sharing.

### **Training**

All employers are required to provide training to their employees in order to increase the employee's productivity and opportunities. The employer must have a training program approved by the Ministry of Labor and Social Welfare. A Joint Commission comprised by an equal number of representatives of the employees and of the employer must revise and implement the Training and Instruction program of the company.

### **Health and safety**

All employers are required to provide a safe environment to employees to render their services, as well a place of work that complies with sanitary standards.

A Joint Health and Safety Commission must be created to investigate the causes of illness and accidents and to propose resources to avoid them.

Also, employers are required to comply with Federal Health and Safety regulations and with a number of Official Mexican Standards regarding a number of different topics such as fire and accident prevention, exposure to toxic substances, employee protective equipment, among others.

### **Working tools**

Employers are required to provide working tools and working materials to their employees in order for them to perform their work efficiently. Such working tools and materials should be in acceptable conditions and shall be replaced by the employer, without any additional charge to the employee, as soon as these wear out due to their normal use.

### **Seniority premium**

This benefit consists in the payment of 12 days of salary per year of services with the following characteristics:

1. Only permanent employees are entitled to it;
2. The salary ceiling for the payment of this benefit is double the minimum wage of the economic zone where the employee was working.
3. In the event of an employee voluntary resignation, it will be paid only if the employee has at least 15 years of seniority.
4. If the employment relationship ends due to the employer's own decision, the employee will have the right to receive this benefit pursuant to the period during which he/she provided services to the employer.

## **D.4 Social security**

### **Contributions**

#### **Social security**

The employee's rate of social security contribution is 2.935% of the integrated salary, which is withheld by the employer from wages. The employer's rate of contribution is approximately 30.99%.

#### **Housing fund**

Employers must contribute 5% of salaries (limited to 25 times the minimum wage) to the Housing Fund, which provides funds for the construction of housing for workers.

#### **Mandatory pension plan**

Employers must contribute 2% of an employee's compensation (limited to 25 times the minimum wage) to a pension trust, which is managed by a bank in the employee's name.

#### **Coverage**

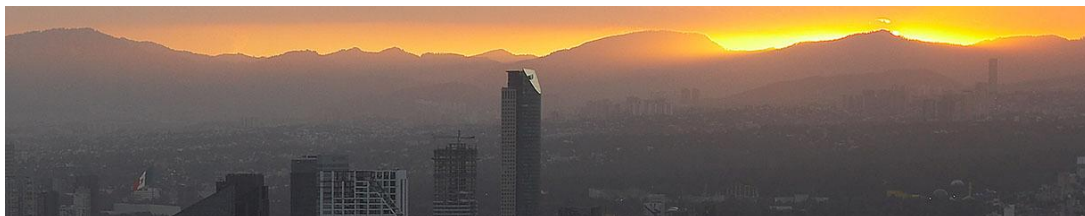
The social security system in Mexico provides the following benefits:

- ▶ Medical assistance for illness, maternity care and accidents;
- ▶ Indemnities for temporary disability; and
- ▶ Pensions for disability, old age and death.

Medical-assistance benefits extend to the members of an employee's family, including a spouse, parents and children.

#### **Totalization agreements**

Mexico has entered into social security totalization agreements with Canada and Spain.



## **D.5 Tax filing and payment procedures**

For individuals, the fiscal year in Mexico is the calendar year. Tax returns must be filed during April, but no later than April 30, of the following year. Taxpayers who obtain income from salary and interest not exceeding Mex \$400,000 are not required to file annual tax returns. However, if the actual amount of interest exceeds Mex \$100,000 and tax withholdings were made on such interest, the individual must file an annual tax return.

Personal income taxes of employed residents and nonresidents are frequently withheld. An individual resident taxpayer may elect to pay the remaining tax due either when the annual return is filed or in installments with interest over a six-month period.

Resident individuals must include all information with their annual income tax return including exempt and nontaxable income. In addition, resident individuals must include information regarding their income from donations, prizes and loans obtained during the calendar year that exceeds, in aggregate or separately, Mex\$500,000

Self-employed individuals and those with rental or business income must make monthly estimated tax payments by opening a bank account to pay their estimated taxes by way of electronic transfer.

Employees of foreign companies who work in Mexico must make monthly estimated payments if their companies do not have permanent establishments in Mexico. Self-employed individuals must make monthly tax payments. Individuals required to file monthly tax returns must open a Mexican bank account to make advance tax payments by internet or by electronic transfer.

Married persons are taxed separately, not jointly, on all types of income. Under the tax regulations, it may be possible to include a spouse's income in the tax return of the spousal resident with the greater income.

## **D.6 Double tax relief and tax treaties**

An individual with foreign-source income may take a direct credit for foreign tax paid in the source country to the extent that the foreign tax paid does not exceed the individual's Mexican tax liability on the foreign-source income. This foreign tax credit is subject to ceilings and apportionment rules.

Mexico has entered into double tax treaties with certain countries. For a listing of these treaties, see Appendix 7.

## D.7 Nonresidential permits

All foreign nationals entering Mexico must have either entry permits or visas, depending on the specific circumstances of their stay.

The required documentation may be obtained from Mexican foreign-service offices abroad, including embassies and consulates, and from the immigration authorities in ports of entry. Additionally, certain tourism offices authorized by the Department of the Interior (Secretaría de Gobernación) may issue tourist visas.

Foreign nationals in Mexico are legally classified as nonresidents, residents or permanent immigrants. Nonresidents are those who enter Mexico temporarily; residents are those who intend to reside in Mexico; and permanent immigrants are those who have lived in the country as residents for five years or longer.

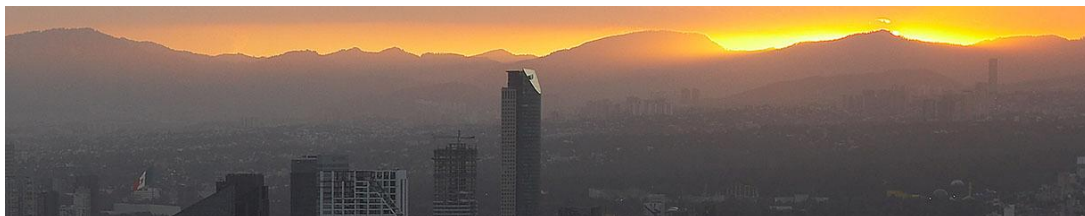
Different types of nonresident permits are granted to the following categories of individuals:

- ▶ Tourists, who may stay in Mexico for a maximum of six months.
- ▶ Individuals in transit, who may stay in Mexico up to 30 days while on their way to another country.
- ▶ Visitors, who may or may not be gainfully employed; their visas are valid for 12 months, may be renewed up to four times and permit multiple entries and departures. The visitor category includes foreigners entering Mexico to investigate investment possibilities or make investments, to carry out scientific, technical, advisory, artistic or sports activities, to occupy key posts in companies, or to attend board of director or shareholders' meetings.
- ▶ Ministers or other religious associates.
- ▶ Individuals granted political asylum.
- ▶ Refugees.
- ▶ Students.
- ▶ Distinguished visitors.

## D.8 Work permits and self-employment

Work permits are generally granted for periods of one year; however, they may be extended. In general, a prospective employee must provide documentation showing that he or she has a position in Mexico and has sufficient resources while working there. Documentation may be in the form of an employment contract or a letter from an employer. The prospective employee must also provide a copy of his or her passport, photos and other identification. The information must be submitted to the immigration department in the state where the prospective employee will live.

Foreign nationals may be self-employed in Mexico. No minimum capital investment is required; however, expatriates must apply for investor status and must be able to show sufficient economic capability and practical experience to undertake a business operation.



## D.9 Residence permits

### Residents

The following individuals are considered residents:

- ▶ Individuals of independent means who live on income brought into Mexico from abroad.
- ▶ Investors who make capital investments in Mexico in accordance with legal requirements.
- ▶ Individuals who exercise their profession and whose professional diplomas are registered with the Department of Public Education.
- ▶ Individuals who assume certain positions of responsibility in Mexican companies or institutions.
- ▶ Individuals, who direct or perform research, impart scientific knowledge, train researchers or perform educational work in the interest of national development.
- ▶ Technicians or those who carry out applied research projects or who perform technical or specialized functions that cannot be carried out by Mexican nationals.
- ▶ Family members who are economically dependent on their spouses or parents. Foreign children and siblings of immigrants, permanent residents or Mexicans qualify under this category only if they are minors or if it is proven that they are unable to work or are studying in a stable manner.
- ▶ Artists or athletes who perform artistic, sporting or similar activities that are beneficial to the country.
- ▶ Foreigners who perform any licit and honest activity, who are assimilated into the national environment or who have had or currently have a Mexican spouse or child.

### Permanent immigrants

Immigrants who have been legal residents of Mexico for at least five years may obtain permanent immigration status from the Department of the Interior.

## D.10 Family and personal considerations

### Family members

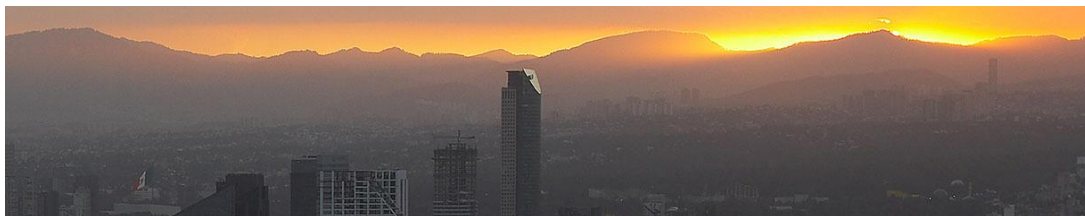
Each family member is issued a separate visa; however, the application forms are frequently included with those of the employee for processing at the same time. If a family member wishes to work, he or she must separately apply for a work permit.

### Drivers' permits

Foreign nationals may not drive legally in Mexico with their home country drivers' licenses. Mexico does not have driver's license reciprocity with other countries.

If a foreign national residing in the country wishes to obtain a driver's license in Mexico, he or she must present the following items:

- ▶ Proof of address;
- ▶ Immigration form used to enter the country;
- ▶ Passport; and
- ▶ Pay the corresponding government fees.



# Appendices

## Appendix 1: Useful addresses and telephone numbers

When dialing from an international location, the international telephone country code for Mexico, 52, must be used as a prefix.

### Federal Government Agencies

#### **Ministry of Agrarian Reform**

Av. H. Escuela Naval Militar # 669  
Colonia Presidentes Ejidales  
04470 Mexico, D.F.  
Telephone: (55)5624-0000  
Facsimile: (55) 9181-0108  
Website: [www.sra.gob.mx](http://www.sra.gob.mx)

#### **Ministry of Agriculture, Livestock and Rural Development, Fishing and Feeding**

Municipio Libre 377  
Colonia Santa Cruz Atoyac, Benito Juárez  
03310, Mexico, D.F.  
Telephone: (55) 3871-1000  
Facsimile: (55) 3871-1000 Ext. 33775  
Website: [www.sagarpa.gob.mx](http://www.sagarpa.gob.mx)

#### **Ministry of Communications and Transportation**

Av. Xola y Universidad s/n Colonia Narvarte, Benito Juárez  
03020 Mexico, D.F.  
Telephone: (55) 5723-9300  
Facsimile: (55) 5519-0692  
Website: [www.sct.gob.mx](http://www.sct.gob.mx)

#### **Ministry of Defense**

Bldv. A. Camacho s/n Esq. Av. Ingenieros Militares  
Lomas de Sotelo, Miguel Hidalgo  
11640 Mexico, D.F.  
Telephone: (55) 2122-8800 Ext. 3585  
Facsimile: (55) 5395-2935  
Website: [www.sedena.gob.mx](http://www.sedena.gob.mx)

**Ministry of Economy**

Alfonso Reyes 30  
Colonia Hipódromo Condesa, Cuauhtémoc  
06140 Mexico, D.F.  
Telephone: (55) 5729-9100  
Facsimile: (55) 5729-9320  
Website: [www.economia.gob.mx](http://www.economia.gob.mx)

**Ministry of Energy**

Insurgentes Sur No. 890  
Colonia del Valle, Benito Juárez  
03100 Mexico, D.F.  
Telephone: (55) 5000 6000  
Facsimile: (55)5448-6055  
Website: [www.sener.gob.mx](http://www.sener.gob.mx)

**Ministry of Environment, Natural Resources and Fisheries**

Boulevard Adolfo Ruíz Cortines 4209  
Colonia Jardines de la Montaña, Tlalpan  
14210 Mexico, D.F.  
Telephone: (55)5628-0600  
Facsimile: (55)5628-0640  
Website: [www.semarnat.gob.mx](http://www.semarnat.gob.mx)

**Government of the Federal District**

Plaza de la Constitución No. 1  
Colonia Centro  
06068 Mexico, D.F.  
Telephone: (55)5518-1100  
Facsimile: (55)5510-0771

[www.df.gob.mx](http://www.df.gob.mx)

**Ministry of Finance and Public Credit**

Palacio Nacional, Plaza de la Constitución s/n  
Colonia Centro, Cuauhtémoc  
06000 Mexico, D.F.  
Telephone: (55)5228-4600  
Facsimile: (55)5228-1145  
Website: [www.shcp.gob.mx](http://www.shcp.gob.mx)

**Ministry of Foreign Affairs**

Av Juárez #20  
Col Centro, Cuauhtémoc  
06010 Mexico, D.F.  
Telephone: (55) 3686-5100  
Facsimile: (55)5327-3091  
Website: [www.sre.gob.mx](http://www.sre.gob.mx)



### **Ministry of Health**

Lieja No. 7  
Colonia Juárez, Cuauhtémoc  
06600 Mexico, D.F.  
Telephone: (55)5553-6888  
Facsimile: (55)5553-7917  
Website: [www.portal.salud.gob.mx](http://www.portal.salud.gob.mx)

### **Ministry of the Interior**

Abraham González #48  
Colonia Juárez, Cuauhtémoc  
06600 Mexico, D.F.  
Telephone: (55) 5728-7400  
Facsimile: (55) 5728-7300  
Website: [www.gobernacion.gob.mx](http://www.gobernacion.gob.mx)

### **Ministry of Labor and Social Welfare**

Periférico Sur No. 4271  
Colonia Fuentes del Pedregal, Tlalpan  
14149 Mexico, D.F.  
Telephone: (55)3000-2100  
Facsimile: (55)3000-2146  
Website: [www.stps.gob.mx](http://www.stps.gob.mx)

### **Ministry of the Navy**

Eje 2 Oriente  
Tramo Heroica Escuela Naval No. 861  
Colonia Los Cipreses, Coyoacán  
04830 Mexico, D.F.  
Telephone: (55)5624-6500  
Facsimile: (55)5624-6365  
Website: [www.semar.gob.mx](http://www.semar.gob.mx)

### **Ministry of Public Education**

Argentina No. 28, 2nd Floor  
Colonia Centro  
06029 Mexico, D.F.  
Telephone: (55) 3601-1000  
Website: [www.sep.gob.mx](http://www.sep.gob.mx)

**Government Comptroller Ministry**

Av. Insurgentes Sur 1735  
Colonia Guadalupe Inn, Álvaro Obregón  
01020 Mexico, D.F.  
Telephone: (55)2000-3000  
Facsimile: (55) 2000-3000  
Website: [www.funcionpublica.gob.mx](http://www.funcionpublica.gob.mx)

**Ministry of Social Development**

Av. Paseo de la Reforma 116  
Colonia Juárez, Cuauhtémoc  
06600 Mexico, D.F.  
Telephone: (55)5328-5000  
Facsimile: (55) 5328-5000 Ext. 51484  
Website: [www.sedesol.gob.mx](http://www.sedesol.gob.mx)

**Ministry of Tourism**

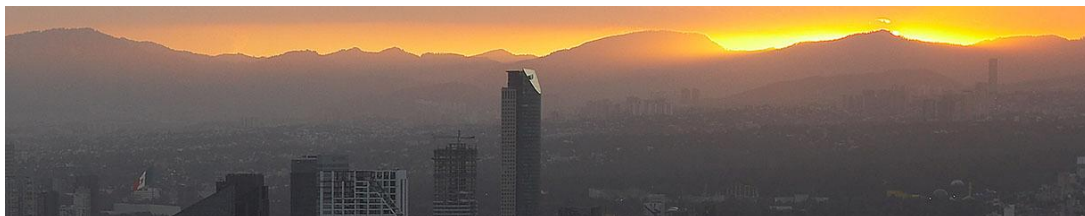
Presidente Masaryk No. 172  
Colonia Chapultepec Morales, Miguel Hidalgo  
11587 Mexico, D.F.  
Telephone: (55)3002-6300  
Facsimile: (55) 3003-1623  
Website: [www.sectur.gob.mx](http://www.sectur.gob.mx)

**Office of the President of Mexico - Los Pinos Residence**

Residencia Oficial de los Pinos Casa Miguel Alemán  
Col. San Miguel Chapultepec  
11850 Mexico, D.F.  
Telephone: (55) 5093-5300  
Facsimile: (55) 2789-1145  
Website: [www.presidencia.gob.mx](http://www.presidencia.gob.mx)

**Government Financial Institutions****Central Bank of Mexico**

Av. 5 de Mayo No. 2, 5th floor  
Colonia Centro, Cuauhtémoc  
06059 Mexico, D.F.  
Telephone: (55)5237-2000  
Facsimile: (55)5237-2070  
Website: [www.banxico.org.mx](http://www.banxico.org.mx)



### **Foreign Trade Bank**

Periférico Sur 4333  
Col. Jardines en la Montaña, Tlalpan  
14210 Mexico, D.F.  
Telephone: (55)5449-9000  
Facsimile: (55)5449-9028 / 30  
Website: [www.bancomext.com](http://www.bancomext.com)

### **Nacional Financiera, SNC (Nafin)**

Insurgentes Sur No. 1971  
Colonia Guadalupe Inn, Álvaro Obregón  
01020 Mexico, D.F.  
Telephone: (55) 5325-6612  
Facsimile: (55) 5325-6677  
Website: [www.nafin.com](http://www.nafin.com)

## Business and professional organizations

### **Mexican Chamber of the Construction Industry**

Periférico Sur No. 4839  
Colonia Parques del Pedregal  
14010 Mexico, D.F.  
Telephone: (55)5424-7400  
Facsimile: (55)5606-8007  
Website: [www.cmic.org](http://www.cmic.org)

### **Mexican Confederation of Employers**

Insurgentes Sur No. 950 1st Floor  
Colonia Del Valle  
03100 Mexico, D.F.  
Telephone: (55) 5687-5466  
Facsimile: (55) 5536-1698  
Website: [www.coparmex.org.mx](http://www.coparmex.org.mx)

### **National Chamber of Commerce**

Paseo de la Reforma no. 42  
Colonia Centro, Cuauhtémoc  
06048 Mexico, D.F.  
Telephone: (55) 5592-2665  
Facsimile: (55) 5592-2677  
Website: [www.ccmexico.com.mx](http://www.ccmexico.com.mx)

**National Chamber of the Transformation Industry**

Av. San Antonio No. 256  
Colonia Ampliación Nápoles, Benito Juárez  
03849 Mexico, D.F.  
Telephone: (55) 5482-3000  
Facsimile: (55) 5482-3000  
Website: [www.canacindra.org.mx](http://www.canacindra.org.mx)

**National Insurance and Bonding Commission**

Insurgentes Sur No. 1971  
Torre 1 Sur, 2nd Floor  
Colonia Guadalupe Inn, Álvaro Obregón  
01020 Mexico, D.F.  
Telephone: (55) 5724-7495  
Facsimile: (55) 5661-5301  
Website: [www.cnsf.gob.mx](http://www.cnsf.gob.mx)

**Stock Exchange and Commission (Mexican Stock Exchange)**

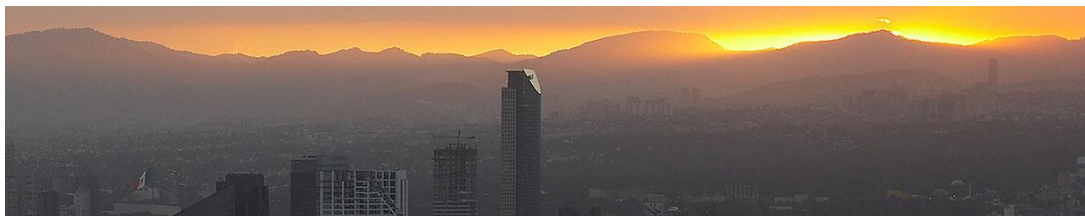
Reforma No. 255  
06500 Mexico, D.F., Cuauhtémoc  
Telephone: (55)5726-6600  
Facsimile: (55)5726-6805  
Website: [www.bmv.com.mx](http://www.bmv.com.mx)

**American Chamber**

Lucerna No. 78  
Colonia Juárez, Cuauhtémoc  
06600 Mexico, D.F.  
Telephone: (55)5141-3800  
Facsimile: (55)5141-3833 / 34  
Website: [www.amcham.com.mx](http://www.amcham.com.mx)

**Canadian Chamber of Commerce**

Manuel Ávila Camacho No. 1, 8th Floor  
Colonia Polanco, Miguel Hidalgo  
11560 Mexico, D.F.  
Telephone: (55)5580-3690  
Website: [www.cancham.mx](http://www.cancham.mx)



#### **French-Mexican Chamber of Commerce and Industry**

Protasio Tagle No. 104  
Colonia San Miguel Chapultepec  
11850 Mexico, D.F.  
Telephone: (55)5272-0960  
Facsimile: (55)5515-3030  
Website: [www.cfmci.com](http://www.cfmci.com)

#### **German-Mexican Chamber of Commerce and Industry**

Av. Santa Fé No. 170  
Colonia Lomas de Santa Fé  
01210 Mexico, D.F.  
Telephone: (55)1500-5900  
Facsimile: (55)1500-5910  
Website: [www.camexa.com.mx](http://www.camexa.com.mx)

#### **British Chamber of Commerce**

Río de la Plata No. 30  
Colonia Cuauhtémoc  
06500 Mexico, D.F.  
Telephone: (55)5256-0901  
Facsimile: (55)5211-5451  
Website: [www.britchamexico.com](http://www.britchamexico.com)

#### **Spain Chamber of Commerce**

Homero No. 1430  
Colonia Polanco, Miguel Hidalgo  
11510 Mexico, D.F.  
Telephone: (55)5395-5281  
Facsimile: (55)5395-4803  
Website: [www.camescom.com.mx](http://www.camescom.com.mx)

## Appendix 2: Economic indicators

The following table presents key indicators of Mexico's economic performance from 2006 to 2010.

	2006	2007	2008	2009	2010
Increase in real GDP (%)	4.8	3.3	1.2	-6.13	5.41
GDP (US\$ billions)	915.5	1,025.3	1,037.6	879.7	1,034.8
Consumer price inflation (%)	4.05	4.0	5.1	3.57	4.4
GDP per capita (US\$)	8,131	9,744	10,082	8,026	9,352
28-day Treasury bill (CETES) annual average rate (%)	7.19	7.19	7.68	5.39	4.4
Exports (FOB) (US\$ billions)	226.84	271.9	291.3	229.7	298.5
Imports (FOB) (US\$ billions)	239.12	281.9	308.6	234.4	301.5
Current account (% of GDP)	-0.30	-0.81	-1.48	-0.7	-0.5
Total external debt (% of GDP)	17.8	18.9	18.5	21.8	22.6

Source: Center of Economical Studies of the Private Sector (CEESP), National Institute of Statistics, Geography and Informatics (*Instituto Nacional de Estadística Geografía, e Informática*, or INEGI), Central Bank of Mexico. (BANXICO)



### Appendix 3: Exchange rates

The following table provides average exchange rates for the Mexican peso against selected major currencies from 2006 to 2010.

	2006	2007	2008	2009	2010
Euro	14.23	15.95	19.56	18.81	16.53
British pound	21.17	21.70	19.95	21.09	19.33
Japanese yen	0.0907	0.0977	0.1534	0.1414	0.1518
U.S. dollar	10.81	10.91	13.83	13.07	12.35

Source: Central Bank of Mexico

## Appendix 4: Import and export statistics

The following tables present Mexico's major trading partners in 2006 - 2010.

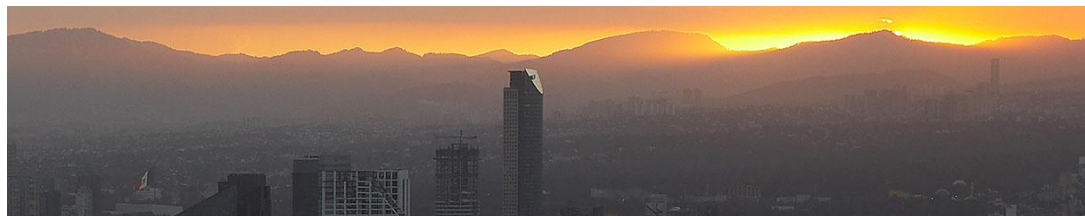
Imports US\$ (millions)

Country	2006	2007	2008	2009	2010
United States	130,311	139,473	151,335	112,434	145,007
China	24,438	29,744	34,690	32,529	45,608
Japan	15,295	16,343	16,283	11,397	15,015
South Korea	10,621	12,614	13,527	10,946	12,731
Germany	9,437	10,688	12,606	9,727	11,077
Canada	7,376	7,957	9,443	7,304	8,608
Taiwan	4,974	5,897	6,659	4,592	5,621
Italy	4,109	5,542	5,219	3,147	3,997
Brazil	5,558	5,575	5,183	3,495	4,328
Malaysia	4,474	4,771	4,659	4,036	5,276
Netherlands	1,547	2,466	4,184	2,171	2,811
Spain	3,638	3,831	4,056	3,004	3,232
France	2,662	3,098	3,511	2,503	3,024
United Kingdom	2,140	2,294	2,596	1,838	2,005
Chile	2,470	2,594	2,592	1,651	1,952

Exports US\$ (millions)

Country	2006	2007	2008	2009	2010
United States	211,799	223,133	233,523	185,101	238,684
Canada	5,176	6,491	7,102	8,244	10,686
Germany	2,973	4,104	5,008	3,210	3,572
Spain	3,270	3,690	4,233	2,508	3,838
Brazil	1,147	2,010	3,367	2,438	3,781
Colombia	2,132	2,943	3,032	2,491	3,757
Netherlands	1,326	1,905	2,488	1,695	1,842
Venezuela	1,783	2,333	2,310	1,418	1,564
Japan	1,594	1,913	2,046	1,601	1,926
China	1,688	1,895	2,045	2,208	4,183
United Kingdom	925	1,563	1,749	1,243	1,734
Chile	905	1,170	1,587	1,049	1,864
India	680	1,046	1,559	1,112	1,015
Argentina	952	1,130	1,317	1,084	1,769
Guatemala	935	1,152	1,385	1,192	1,468

Source: Ministry of Economy



## Appendix 5: Import and export statistics by economic sector

The following table presents Mexico's imports and exports by economic sector in 2006 - 2010

**Imports**  
US\$ (millions)

	2006	2007	2008	2009	2010
Consumer goods	36,972	43,054	47,940	32,828	41,423
Intermediate goods	101,131	205,295	221,565	170,912	229,812
Capital goods	30,525	33,599	39,097	30,645	30,247
Total imports	256,131	281,949	308,603	234	301

**Exports**  
US\$ (millions)

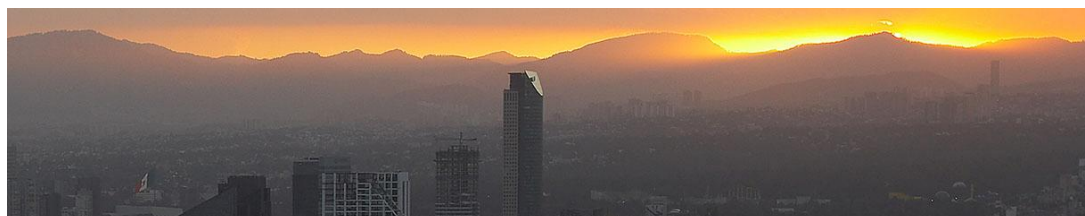
	2006	2007	2008	2009	2010
Oil products	39,022	43,018	50,655	30,910.8	41,682.3
Non-oil products	99,151	9,173	9,848	9,174	10,934
Maquiladoras	111,824	219,684	230,839	189,698.4	245,744.8
Total exports	249,997	271,875	291,342	230	299

Source: Central Bank of Mexico

## Appendix 6: Corporate tax calculation

The following is a sample corporate income tax calculation for a Mexican company for 2009.

Calculation of Taxable Income	Mex\$	Mex\$
Net profits from financial statements		2,500,000
Book restatement adjustments		(500,000)
Net profits without inflation adjustments		2,000,000
Plus:		
Tax inflation adjustments		800,000
Nondeductible items		
Nondeductible expenses	100,000	
Net provisions	200,000	300,000
Book depreciation		400,000
Less:		
Tax depreciation		(600,000)
Taxable income		2,900,000
Tax loss carryforwards		(900,000)
Net taxable income		2,000,000
<b>Calculation of Tax</b>		
Tax on Mex\$2,000,000 at 30%		600,000
Foreign tax credit		(140,000)
Estimated tax payments		(410,000)
Tax payable		50,000



## Appendix 7: Treaty withholding tax rates

The following table presents withholding tax rates under Mexican tax treaties, as of January 2009.

	Dividends (l)	Interest	Patent and Know-how Royalties
	%	%	%
Australia	0/15 (k)	10/15 (e)	10
Austria	5/10 (d)	10	10
Barbados	5/10 (d)	10	10
Belgium	5/15 (a)	10/15 (t)	10
Brazil	10/15 (a)(b)	15 (b)	15 (b)
Canada	5/15 (d)	10	10 (g)
Chile	5/10 (u)	15 (b)	15 (b)
China	5	10	10
Czech Republic	10	10	10
Denmark	0/15 (a)	5/15 (n)	10
Ecuador	5	10/15 (m)	10
Finland	0	10/15 (h)	10
France	0/5 (c)	5/10/15 (b)(h)	10/15 (b)
Germany	5/15 (d)	5/10 (n)	10
Greece	10	10	10
Iceland	5/15 (d)	10	10
India	10	10	10
Indonesia	10	10	10
Ireland	5/10 (d)	5/10 (n)	10
Israel	5/10 (f)	10	10
Italy	15	10/15 (b)	15
Japan	0/5/15 (o)	10/15 (e)	10
Korea	0/15 (k)	5/15 (n)	10
Luxembourg	5/15 (d)	10	10
Netherlands	0/5/15 (d)(s)	5/10 (p)	10
New Zealand	15 (b)	10	10
Norway	0/15 (a)	10/15 (m)	10
Poland	5/15 (a)	10/15 (e)	10
Portugal	10	10	10
Romania	10 (d)	15	15
Russian Federation	10	10	10
Singapore	0	5/15 (n)	10
Slovak Republic	0	10	10
South Africa	5/10 (d)	10	10
Spain	5/15 (a)	5/10/15 (b)(h)(t)	10 (b)(g)
Sweden	5/15 (d)	10/15 (q)	10
Switzerland	0/15 (a)	5/10 (p)	10
United Kingdom	0	5/10/15 (j)	10

United States	0/5/10 (d)	4.9/10/15 (r)	10
Nontreaty countries	0	4.9/10/21/30 (i)	5/25/30 (i)

(a) The lower rate applies if the recipient is a corporation owning at least 25% of the shares of the payer or 20% under the Brazil treaty.

(b) These treaties have a most favorable nation (MFN) clause with respect to interest and/or royalties. Under the MFN clause in the Chile treaty, the withholding tax rate for interest may be reduced to 5% for banks or 10% for other recipients and the withholding tax rate for royalties may be reduced to 10%, if Chile enters into a tax treaty with another country that provides for a lower withholding tax rate than 15% for such payments. Under the MFN clause in the France treaty, the withholding tax rate for interest and royalties is reduced if Mexico enters into a tax treaty with an OECD member that provides for withholding tax rates that are lower than the rates under the Mexico-France treaty. However, the rate may not be lower than 10% if the OECD member country is not a member of the European Union (EU). Under the Italy treaty, the MFN clause applies only to interest. It may reduce the withholding tax rate for interest to as low as 10% only if Mexico enters into a treaty with an EU country that provides for a withholding tax rate for interest of less than 15%. Under the MFN clause in the Spain treaty, the withholding tax rates for interest and royalties may be reduced if Mexico enters into a tax treaty with an EU country that provides for withholding tax rates that are lower than the rates under the Mexico-Spain treaty. Under the Brazil treaty, if this country agrees with another country a lower rate for dividends, interest or royalties that rate should apply; in the case of interest and royalties the applicable rate should not be lower than 4.9 and 10% respectively. Under the New Zealand treaty, if this country agrees with another country a lower rate for dividends, that rate should apply. The standard rate for interest and for patent and know-how royalties under all of the above treaties is generally 15%. However, as a result of the operation of the MFN clause, the lower rates listed in the table may apply in certain circumstances.

(c) The 0% rate applies if the recipient of the dividends is the effective beneficiary of the dividends. The 5% rate applies if the recipient is a company that is resident in France and if more than 50% of such recipient is owned by residents of countries other than France or Mexico.

(d) The 5% rate applies if the recipient is a corporation owning at least 10% of the shares of the payer. Under the US treaty the 0% rate applies if the recipient owns 80% of the voting shares and other requirements are met. Under the Swiss treaty the 0% rate applies if the recipient is a corporation owning at least 10% of the shares of the payer or if the beneficiary is a pension fund.

(e) The 10% rate applies to interest derived from loans granted by banks and insurance companies. Under the Germany treaty, the 10% rate also applies to interest paid to pension funds. Under the Japan and Australian treaties, the 10% rate also applies to interest paid on publicly traded bonds or with respect to sales by suppliers of machinery and equipment, under the Poland treat, the 10% rate also applies to interest paid on publicly traded securities.

(f) The 5% rate applies if the recipient is a corporation that owns at least 10% of the shares of the payer and if the tax levied in Israel is not less than the corporate tax rate.

(g) The effective beneficiary of royalties is subject to withholding tax on the gross payments. Royalties on cultural works (literature, music and artistic works other than films for movies or television) are not subject to withholding tax if they are taxed in the recipient's country.

(h) A 10% rate applies to interest paid on bank loans or publicly traded bonds, as well as to interest paid with respect to sales by suppliers of machinery and equipment.

(i) See Section C.3.



(j) The 5% rate applies if the beneficial owner of the interest is a bank or insurance company or if the interest is derived from bonds or securities that are regularly and substantially traded on a recognized securities market. The 10% rate applies to interest paid by a bank or by a purchaser with respect to a sale on credit of machinery if the seller is the beneficial owner of the interest. The 15% rate applies to other interest.

(k) The 0% rate applies if the recipient is a corporation owning at least 10% of the shares of the payer.

(l) Dividends are not subject to withholding tax under Mexican domestic law. For details, see Section C.4.

(m) Beginning in the fifth year the treaty is in effect, the 15% rate is reduced to 10% if the beneficial owner of the interest is a bank. For the first four years, however, the 15% rate applies to such interest.

(n) The 5% rate applies if the beneficial owner of the interest is a bank.

(o) The 5% rate applies if the recipient is a corporation owning at least 25% of the shares of the payer. The 0% rate applies if the condition described in the preceding sentence is satisfied and if both of the following conditions are satisfied:

- The recipient's shares are regularly traded on a recognized stock exchange.
- More than 50% of the recipient's shares are owned by one or any combination of the following:
  - The state of residence of the recipient;
  - Individuals resident in the state of residence of the recipient; and
  - Corporations resident in the state of residence of the recipient if their shares are traded on a recognized stock exchange or if more than 50% of their shares are owned by individuals resident in the state of residence of the recipient.

(p) The 5% rate applies if the interest is derived from loans granted by banks or insurance companies or if the interest is derived from bonds or securities that are regularly and substantially traded on a recognized securities market. The 10% rate applies to other interest.

(q) The 10% rate applies to interest derived from loans granted by banks.

(r) The 4.9% rate applies if the beneficial owner of the interest is a bank or insurance company or if the interest is derived from bonds or securities that are regularly and substantially traded on a recognized securities market. The 10% rate applies to interest paid by banks or by purchasers with respect to sales on credit of machinery and equipment. The 15% rate applies to other interest.

(s) Under a protocol to the treaty with the Netherlands, the 5% rate is reduced to 0% if the dividends are paid on a shareholding that qualifies for the participation exemption under the corporate tax law of the Netherlands.

(t) The 10% rate applies if the beneficial owner of the interest is a bank.

(u) The 5% rate applies if the recipient is a corporation owning at least 20% of the shares of the payer.

Mexico is currently negotiating double tax treaties with Kuwait, Latvia, Lebanon, Lithuania, Malaysia, Morocco, Nicaragua, Pakistan, Panama, Slovenia, Thailand, Ukraine and Uruguay. Mexico is also currently negotiating exchange of information agreements on tax matters with several countries

## Appendix 8: Personal income tax calculation

The following is a sample individual income tax calculation for a Mexican resident individual for 2009.

Calculation of Taxable Income	Mex\$	Mex\$
Employment income		1,500,000
Less personal deductions		
Medical fees	(20,000)	
Authorized donations	(10,000)	(30,000)
Taxable income		1,470,000

Calculation of Tax	Mex\$
Tax on Mex\$392,841.97	69,662.40
Tax on excess amount of Mex\$1,077,158.03 at 28%	301,604.84
Tax liability	371,267.24
Income tax withheld by employer	(400,000.00)
Total tax due (tax refund in this example)	(28,732.36)



## References

For the preparation of this document were considered different sources of information:

- ▶ IHS Global Insight Inc.
- ▶ Central Bank of Mexico
- ▶ National Institute of Statistics, Geography and Informatics (*Instituto Nacional de Estadística Geografía, e Informática*, or INEGI)
- ▶ Ministry of Economy
- ▶ National Banking and Securities Commission (*Comision Nacional Bancaria y de Valores*, or CNBV)

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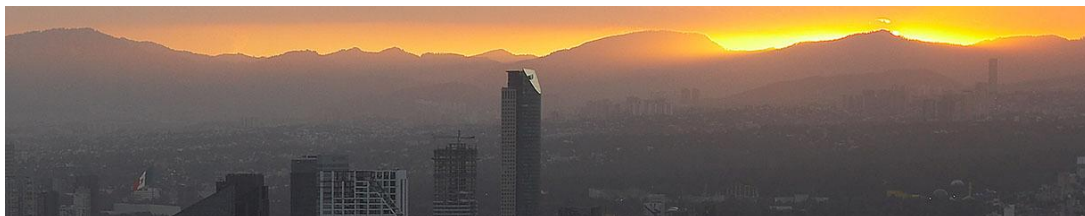
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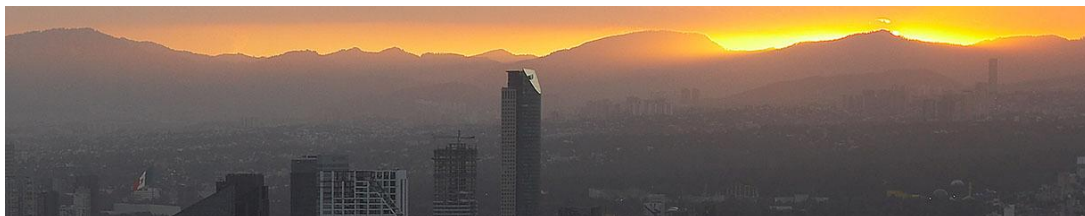
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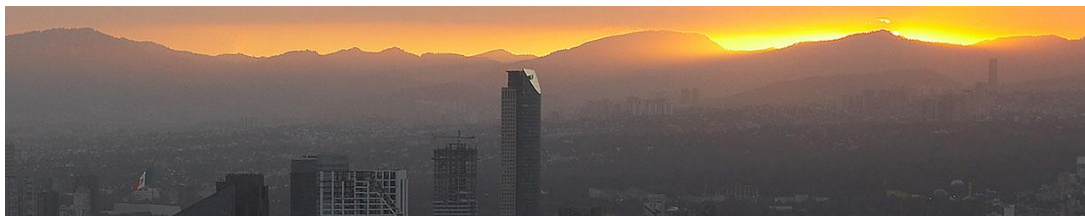
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