
5. Taxes

5.1 Treaties

Mexico has executed treaties for the avoidance of double taxation with various countries, including the U.S., Canada, and several Organization for Economic and Community Development (OECD) countries. Those treaties establish different rules for taxation of Mexican source income (e.g., withholding rates on dividends, royalties and interest) derived by residents of the signatory countries. The relevant tax treaty must be reviewed to determine the applicable rates. If such a treaty is not in place, the rules of the Mexican Income Tax Law (ITL) will govern, as discussed below.

5.2 Corporate income tax

Under the ITL, a company resident in Mexico is subject to income tax on its worldwide net income at the rate of 34 percent.

5.3 Dividend withholding tax

Dividends distributed by a Mexican company are not subject to withholding tax if distributed from the company's "net after-tax profit account". The "net after-tax profit account" is comprised of the company's net after-tax profit for each fiscal year, plus the dividends received by the company from other companies resident in Mexico, minus the dividends distributed in cash or in kind from that account. The net after-tax profit for a fiscal year is the amount that results from subtracting from the company's taxable income for the year:

- the workers' mandatory participation in the profits of the company (see Section 7.1.1 below);
- the company's income tax liability; and
- its non-deductible expenses.

If a dividend to a foreign corporate shareholder is distributed from a source other than the "net after-tax profit account", the withholding tax rate will be 34 percent multiplied by a factor of 1.515.

5.4 Other withholding taxes

Royalties, license fees or other compensation paid by a Mexican licensee to a nonresident for unpatented technology, software or technical assistance are subject to withholding tax at the rate of 15 percent. Royalties paid to a nonresident for patented technology or trademarks are subject to withholding tax at the rate of 35 percent. When royalties arising under the same contract are paid for both patented and unpatented technology, the withholding tax rate is 15 percent.

Interest payments to nonresidents are subject to withholding tax at the rates of 4.9 percent, 10 percent or 35 percent, depending on the type of