Recent Tax Changes

The Mexican government made significant changes to its tax codes in 1991. Among the most publicized of these changes was the reduction in value-added tax (IVA) from 15 to 10 percent. Other significant changes were included in the tax amendment package.

- Exchange controls on foreign currency transactions were repealed, allowing for greater convertibility of Mexican currency now that exchanges are determined at floating rates.
- Businesses are now required to keep a register of payroll payments. In the absence of records, or in case of irregularities, tax authorization can be used to determine the amounts of remuneration.
- Taxpayers must now keep tax records and books for ten years instead of five years.
- A 2-percent tax on the value of total fixed assets must be paid annually.

result, it is generally preferable to operate in Mexico as a Mexican corporation and receive more favourable tax treatment. Specific taxes are levied on income, capital or commercial transactions and contracts or agreements.

The corporate income tax rate has been reduced from 42 percent in 1989 to 35 percent in 1991, making it fully competitive with rates in both developing and developed countries. With a few exceptions, withholding taxes have been lowered from 50 percent in 1989 to zero in 1991. On the other hand, investment incentives have been limited as part of efforts to reduce the federal government deficit and are normally applicable only in cases of minority foreign participation.

Taxpayers in Mexico must apply for a federal registration number. For fiscal purposes, distributable profits are accrued at the point where they are effectively remitted to the head office. No further tax is imposed on income already subjected to corporate income tax.

A new regulation allows a group of Mexican corporations with a common Mexican parent company to file a consolidated income tax return and pay the minimum tax on assets. The Mexican holding company must be owned by a foreign corporation, and that corporation must be based in a country that has signed a comprehensive tax information exchange agreement with Mexico.

Mexico is striving to make its tax system more competitive, and is taking strong collection enforcement measures. Since tax laws are complex and subject to change, it is advisable to consult with a professional tax advisor in Mexico prior to establishing a new operation there.

Summary

In determining whether or not to pursue market opportunities in Mexico through a partnership, it is useful to draw on the experience of Canadian firms that are already there. A survey of their opinions suggests the importance of the following:

- know the market and do your research;
- adopt a clear set of market objectives, and a well-defined corporate strategy suited to the Mexican market;
- choose complementary partners to avoid feelings of perceived competition later on;
- be prepared for major delays and costs due to bureaucratic procedures which are different from those encountered in Canada;
- assign a world-class manager who is flexible and knowledgeable in the languages required (English and Spanish) and cultures;
- be sure you are providing something that the Mexicans need and that your niche is well identified;
- ensure that your contributions of capital and/or technology are duly recognized in the joint venture agreement;
- aim to have the Mexican operation become self-sustaining; and
- negotiate, wherever possible, the appointment of a Canadian manager to the project in Mexico for the first few years of operation. This will ease the adjustment and facilitate communication and problem-solving.

According to a trade official at External Affairs and International Trade Canada, *a well-defined state of mind, a long-term perspective, deep pockets, a stiff constitution, and the right human resources dedicated to the project will make the venture work.*