establishment in Mexico, it will be considered as providing Mexican-source income to the individuals involved. In this case, employees will pay taxes in one of two ways.

- Those who take up residency must file a normal income tax return in Mexico.
- Those who are classified as non-residents will have taxes withheld at source.

Individuals will be considered residents of Mexico when they have established a home in Mexico unless they are physically in another country for more than 183 days in a calendar year. They must also be able to prove residence for tax purposes in that other country. Foreigners working in Mexico under an FM-3 business visa are not generally considered residents for tax purposes unless they establish their principal home in Mexico.

Residents are subject to progressive income tax rates. The top marginal tax rate for the 1996 tax year was 35 percent. A 34 percent rate was reached after 61,058 Mexican pesos annually, which is roughly C$10,800. Tax brackets are indexed to inflation and are adjusted quarterly.

Non-residents on temporary assignment for a permanent establishment, up to 183 days a year, pay taxes on their Mexican source income at special rates. Amounts less than US$10,000 annually are exempt, and the rate is 15 percent up to US$90,000. After that, taxes are withheld at the rate of 30 percent. Taxes withheld at source are considered final, with no return being filed.

Tax Treaty

In 1992, Canada became the first country to sign a bilateral tax convention with Mexico. It is called the *Convention Between the Government of Canada and the Government of the United Mexican States for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income.* This Convention eliminates double taxation and may reduce taxes for firms resident in Canada and doing business in Mexico. The treaty supersedes Mexico's tax laws in several areas, notably the taxation of royalties and fees remitted to Canada. There is a uniform withholding rate of 15 percent on remittances from Mexico to Canada. This differs from the general Mexican law which provides for up to 35