be instrumental in sourcing financing or guarantees. The strength and reputation of either party may make a stock issue possible in Mexico, depending on the nature of the project and prevailing market conditions.

Risks and Rewards: The willingness of either party to make a financial commitment to the partnership will also depend on what other investment opportunities are available. If participation in the relationship promises one of the sides greater rewards for less risk then other alternatives, that partner will be more willing to increase its contribution in return for a larger share of the returns.

Statement of Financial Criteria: The Canadian firm should formulate financial criteria that will make it easier to define financial performance objectives as well as targets for investment, risk financing, new share issues, retained earnings, and earnings-per-share. The firm should also make clear at the outset what its intentions are regarding additional funding, potential sources of new funds, key financial ratios, and dividend goals. Finally, it should describe the organization and structure to be used for the financial management of the proposed venture.

A partnership in Mexico can be evaluated according to the same criteria for success as are normally applied in Canada. Even so, it is better to take a long-term view of the venture since it is likely to take several years before significant financial returns materialize. Ultimately, however, the purpose of any business venture is to generate profits. There should be a clear agreement between the partners as to how profits are to be handled. In the case of some partnerships, any dividends due are deferred or reinvested during the venture's early years. In addition, some companies are able to arrange for profits to accrue to them through transfer prices and service contracts. Over the long term, the partners may come to differ over the issue of retaining earnings for reinvestment or redistributing them to the partners. Some of this can be avoided early in the relationship by specifying how much and how quickly the partners want their venture to grow and also by making the appropriate arrangements for the disposition of earnings at that time.

Tax Considerations

Canada and Mexico have entered into a Double Taxation Agreement that has been ratified by both governments and only awaits passage of the required legislation. This tax treaty with Canada was the first such international tax treaty entered into by the Mexican government.

The objective of tax treaties in general is to prevent double taxation, to establish fiscal cooperation between taxing authorities of the signatory countries, to ensure fairness to taxpayers, and to enforce the revenue laws of both countries. Such treaties tend to reduce the amount of tax that a corporation from one country must pay another country. Thus, in setting up a partnership, it is important to consider how to take advantage of the tax regimes currently in existence in Canada and Mexico. Proper planning can greatly reduce the tax burden, and it is wise to consult tax advisors in both countries.

Mexico recently imposed an income tax on non-residents who work 15 days or more in Mexico during a 12-month period. The tax is due regardless of whether the salary is paid by a non-resident employer or a Mexican entity. The regulations are vague in the definition of what constitutes a day's work or how the tax will be collected. According to the law, the first 14 days are exempt from the tax, but on the 15th day, all work, including the first 14 days will be subject to the tax. The regulations imply that the employer is required to withhold 30 percent of the non-resident's gross salary. A Mexican tax expert can determine the extent of the fiscal impact on the company.

Mexico rarely accords special tax treatment to foreign investors, foreign subsidiaries, or expatriate personnel working and residing in Mexico. As a

There are no exchange controls or other restrictions on the repatriation of capital or the remittance of profits from Mexico. The necessary foreign currency is acquired on the free exchange market. There are no restrictions on the remittances of dividends, providing all applicable taxes are paid. There is also no withholding tax on dividend payments if the dividend is paid from previously taxed profits and remitted to a foreign company.

Two Tax Incentives

Mexico offers two tax incentives to encourage foreign investment:

1. all inventory purchases are immediately deductible from income. As a consequence, they cannot be later deducted as costs of goods sold; and
2. a substantial portion of the total cost of new fixed assets acquired may be written off at the option of the company. As part of the government's regional development policy this write-off is not available for assets used in the Federal District, Monterrey and Guadalajara. The objective is to discourage further growth in these already overcrowded areas and encourage it in the other regions.