In a joint production agreement, companies cooperate to build a project or a number of projects. These agreements enable firms to optimize the use of their own resources, to share complementary resources and to take advantage of economies of scale. For example, many foreign engineering firms have entered joint production agreements with Mexican firms that have construction expertise.

CORPORATE VEHICLES AND TAXATION

Foreign investments in Mexico are usually made through a Mexican corporation with variable capital, *Sociedad Anónima de Capital Variable*, abbreviated as *S.A. de C.V.* Another vehicle that is used occasionally is a limited liability company, *Sociedad de Responsabilidad Limitada* or *S. de R.L.* A third option is a general partnership with unlimited liability, *Sociedad en Nombre Colectivo* or *S. en N.C.*

Mexico rarely accords special tax treatment to foreign investors, foreign subsidiaries, or expatriate personnel working and residing in Mexico. As a result, it is generally preferable to operate in Mexico as a Mexican corporation in order to receive more favourable tax treatment. Specific taxes are levied on income, capital or commercial transactions and contracts or agreements.

The corporation must have at least five shareholders. Once all the necessary authorizations have been secured, the by-laws must be formalized in a public deed and executed before a public notary. Prior authorization from the *Secretaría de Relaciones Exteriores (SRE)*, Secretariat of Foreign Affairs, is required to form a corporation or business entity.

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. In setting up a partnership, it is important to consider how to take advantage of the tax regimes of both countries. Proper planning can greatly reduce the tax burden, and it is wise to consult tax advisors in both Canada and Mexico.

CORPORATE TAXES

The corporate income tax rate was reduced from 42 percent in 1989 to 35 percent in 1991, making it fully competitive with rates in both developing and developed countries. Taxpayers in Mexico must apply for a federal taxation 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.