

SCENARIOS AND OPPORTUNITIES FOR MEXICO'S ESTATE PLANNING

Private Banking Mexico



Wealth Planning
2018

Introduction

- ❓ The world, due to its complex structures and different situations, is in constant movement and development.
- ❓ The ability to respond positively to change makes us stronger. Being prepared to face the unexpected, allow us to react more efficiently to the challenges and opportunities that come our way through time.
- ❓ Constantly and with information coming from diverse sources, we analyze different scenarios that may come across and with this analysis we generate solutions to protect our friend's and client's estate.
- ❓ One of the scenarios that we have identified as highly viable in Mexico and, for instance, as an opportunity in the decision making of estate planning is the possible implementation of the **Inheritance Tax**.

Facts

- ❓ High Wealth's Concentration → 1% of the population receives 21% of the country's income.
- ❓ Inequality → Mexico ranks 87 out of 113 countries according to "The Standardized World Income Inequality Database".
- ❓ Mexico has no inheritance tax, so wealth accumulates and circulates freely. Almost all the countries of the **OECD** collect taxes on inheritances and donations.
- ❓ Some relevant tax collection data:

Region Concept	México	Average OECD	Average LATAM
Annual collection against GDP	17%	35%	25%
Income from taxes on goods and services	54%	35%	

Highly Possible New Inheritance Tax

In addition to the information above, we consider as highly possible the implementation of this tax according to the following :

- ? The Mexican government will require an increase in its levels of tax collection to meet the new government campaign promises and the challenges of the coming years.
- ? Most of the countries in the OECD have an Inheritance Tax or Estate Tax. Mexico has already received a direct recommendation from the OECD to implement this tax.
- ? During the current administration (six-year period), three initiatives have been submitted to the Congress in order to reform Mexico's Income Law to start taxing inheritances and donations.
- ? It would be perceived as a popular measure because the tax would be collected starting at 10 million MXN.



International Context – Wealth Taxes / LATAM

Subclase de Impuesto	Tipo	Argentina	Bolivia	Brasil	Chile	Colombia	Costa Rica	El Salvador	Ecuador	Guatemala	Honduras	México	Nicaragua	Panamá	Paraguay	Perú	Rep. Dominicana	Uruguay	Venezuela
Impuestos recurrente sobre bienes inmuebles	Propiedad y/o posesión	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X	X
	Sobre tasa						X								X			X	X
Impuestos recurrentes sobre el patrimonio		X				X												X	
Transferencias por sucesión, herencias y donaciones				X	X			X	X				X				X	X	X
Impuestos sobre las transacciones financieras y de capital (no sucesorios)	Bienes inmuebles	X	X	X			X	X	X		X	X	X	X	X	X	X	X	X
	Patrimonio en General									X									
	T.F. y/o Compra y venta de títulos	X	X	X		X						X				X		X	X
	Transferencia de Autos, embarcaciones y aeronaves						X												
Otros impuestos recurrentes a la propiedad	Vehículos automotores	X	X	X		X	X		X			X				X		X	X
	Embarcaciones y/o aeronaves						X									X			

Law Reform Initiative - Taxes on Inheritances and Donations

- On August 8, 2018, an initiative to amend Mexico's Income Law in order to implement taxes on inheritances and donations was again presented to the Mexican Congress.
- The initiative states that 35% will be paid for the income obtained by donations, inheritances or legacy that exceed 10 million MXN and must cover a provisional payment, in accordance with the following table:

Rank Provisional payment rate	10 to 50 million MXN.	50 to 100 million MXN.	Starting at 100 million MXN.
10%	?		
20%		?	
30%			?

Example

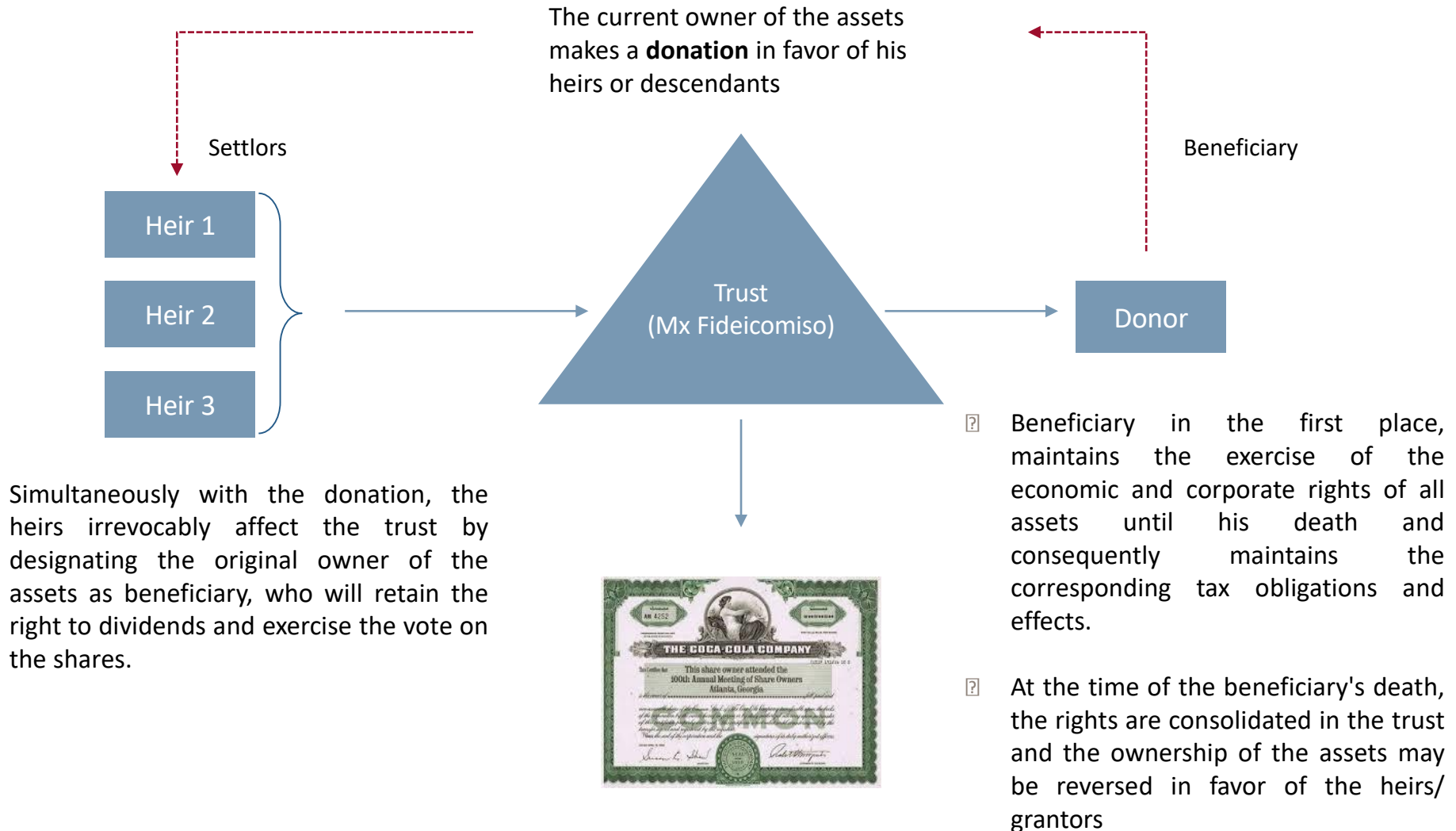


- ? **Total value of the property: 200 million MXN**
- ? **Tax amount (Provisional payment): 44 million MXN**
- ? **Provisional payment rate: 22%**
- ? **Tax amount (Full payment): 70 million MXN**
- ? **Full rate: 35%**

- ? Between 100 - 200 million MXN 30% = 30 million MXN
- ? Between 50 - 100 million MXN 20% = 10 million MXN
- ? Between 10 - 50 million MXN 10% = 4 million MXN
- ? First 10 million MXN = Tax Exempt

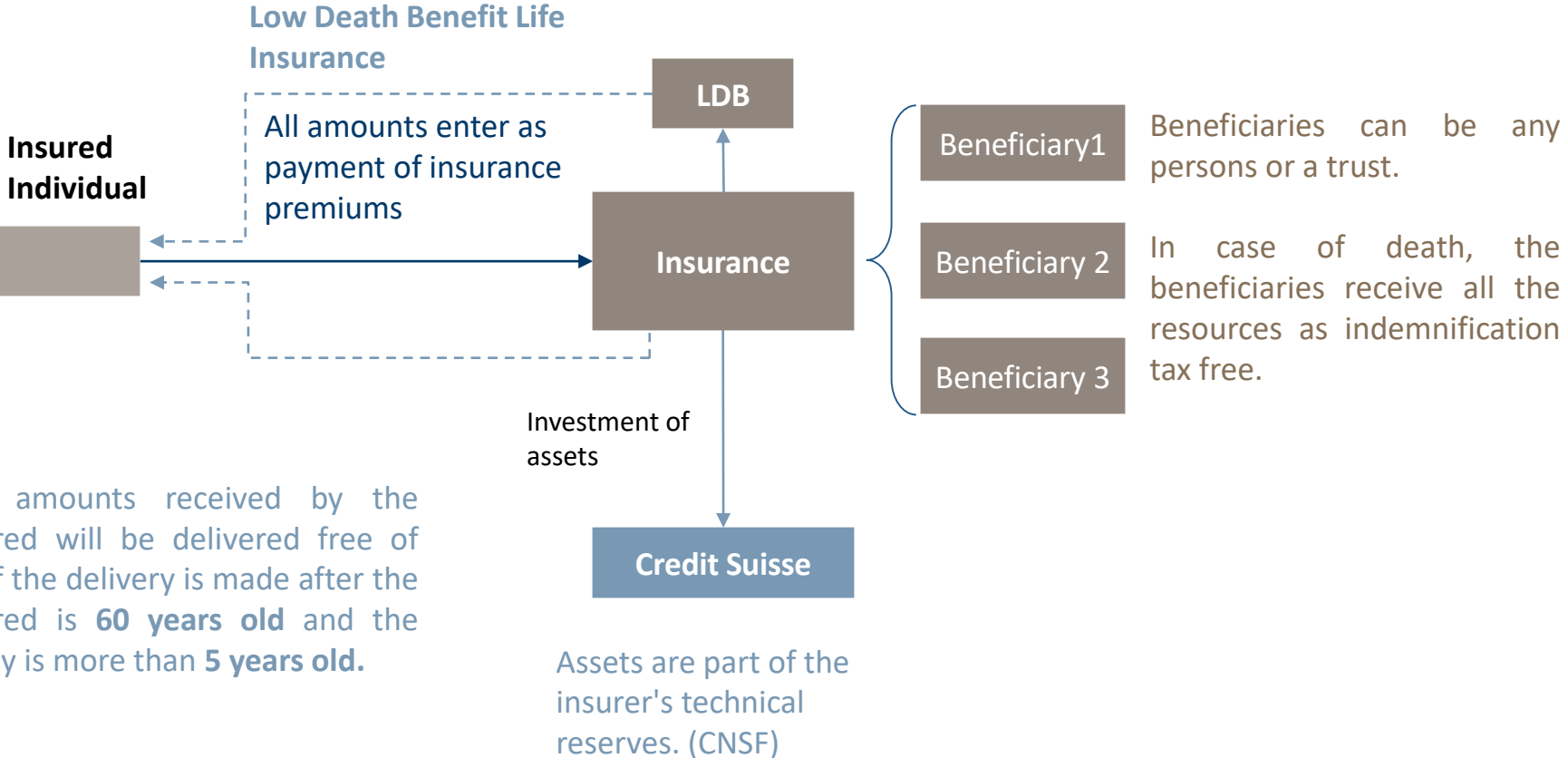
Scheme

Efficient Trust Towards Inheritance Tax



Life insurance

Unit Linked



The amounts received by the insured will be delivered free of tax if the delivery is made after the insured is **60 years old** and the policy is more than **5 years old**.


Unit Linked: Fiscal efficiency in succession planning

Implications of the administration of the Technical Reserves

Being the case of a life product, in case of inheritance taxing, life insurance investment clients will be able to assign beneficiaries who will receive 100% tax-exempt resources regardless of the relationship.

Case Law in Mexico's Judiciary

- ❑ The last known case on the judiciary was on Mexico's Supreme Court of Justice, when resolving an appeal for review which determined the following.



If the insurance premium **was paid by the deceased**, the beneficiaries **will not pay taxes** for the money they receive, **regardless of who the beneficiary is.**

International Precedents

- ❑ According to a study conducted by the OECD and PWC, no OECD countries (or members in the process of accession) had implemented additional taxes on life insurance products as compensation.
- ❑ No court records have been found that determine otherwise.

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