

TTN Conference
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Tax Issues of Mexican High Net Worth Families

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Agenda

1. 2014 Tax Reform
2. Information Exchange FATCA – IGA
3. Anti-Deferral Regime
4. Amnesty Program

1. 2014 Mexican Tax Reform

- Strengthen public finances
- Simplification
- Foster formal economy
- Social programs
 - Unemployment benefits
 - Omnibus pension
- Deficit Spending

1. 2014 Mexican Tax Reform

- Business Flat Tax (IETU) and Cash Deposit Tax (IDE)
- Value Added Tax
- Excise Taxes
- Income tax
 - Corporate
 - Individual
- Compliance and enforcement

1. 2014 Mexican Tax Reform - VAT

- Adoption of uniform 16% VAT. Border rate formerly 11%
- New taxable items:
 - Intercity passenger transportation, sale of cats, dogs and other small pets and their food, chewing gum
- Maquiladoras
- VAT amendments that did not pass:
 - Food and medication
 - Real estate and home mortgage interest
 - Tuition
 - Public entertainment

1. 2014 Mexican Tax Reform – Excise Taxes

\$1 peso per liter on importation or sale of sugar based beverages

8% importation or sale of certain high calories foods (snacks, candy, chocolate, ice cream, etc.)

Gas, fuel and coal – progressive rates

Pesticides taxed based on toxicity

7.5% tax on mining income

0.5% tax on gross revenues of gold, silver and platinum

1. 2014 Mexican Tax Reform – Income Tax

- New Income Tax Law – not an amendment
- Precedents become void
- Corporate rate stays at 30% (under current law rate would be decreased to 29% in 2014 and to 28% in 2015)
- Deductions severely capped
- Limitation on treaty benefits
- Attack on base erosion and profit shifting

1. 2014 Mexican Tax Reform – Income Tax

- 10% tax on dividends paid (profits earned from 2014 on)
- 10% capital gain tax on stock market transactions (capital gains from stock market transactions formerly tax exempted)
- Personal income tax rates increased from current maximum 30% marginal rate:
 - 32% exceeding MP\$750,000
 - 34% exceeding MP\$1,000,000
 - 35% exceeding MP\$3,000,000

1. 2014 Mexican Tax Reform – Income Tax

Corporate Taxable Income:	100
Corporate Tax @ 30% (A):	<u>(30)</u>
Net Profit:	70
Dividend:	70
Withholding Tax @ 10% (B):	<u>(7)</u>
Net:	63
Dividend Income:	100
Personal Income Tax @ 35%:	(35)
Tax Credit (A):	<u>30</u>
Tax Due (C):	(5)
Total Tax (A+B+C):	42
Effective Rate:	42%

1. 2014 Mexican Tax Reform – Compliance

- Mandatory electronic mailbox with tax authority to receive communications, inquiries, request rulings, contest assessments, file notices, etc. 72 hours to open incoming messages. (Effective as of June 30 for corporate taxpayers and 2015 for individuals)
- Accounting must be electronically processed. (will be phased-in by region)
- Expanded requirements for digital (electronic) documentation including payroll stubs. Invoices electronically produced through the SAT portal are required
- Board of Directors and controlling shareholders liable for tax omissions
- Independent advisors may be held jointly liable for tax omissions

2. Information Exchange

- HIRE Act
- FATCA (2010)
- Reciprocity Requests – Bilateral Agreements
- Internal Revenue Bulletin 2012-20 (T.D. 9584)
- IGA USA-Mexico
 - Signed November, 19 2012
 - In force January 1, 2013
 - Automatic information exchange

3. Anti-Deferral Regime

- 1998 – Black list
- 2005 – Economic substance
- Anti-deferral + reporting
- Control Exception

4. Amnesty Program

- Anonymous Payment
 - Decree of January 26, 2005
 - Applicable to individuals
 - Foreign source income
 - Complies with all related obligations - reporting
 - Payments through a financial institution
 - Confidential?

Thank you!

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