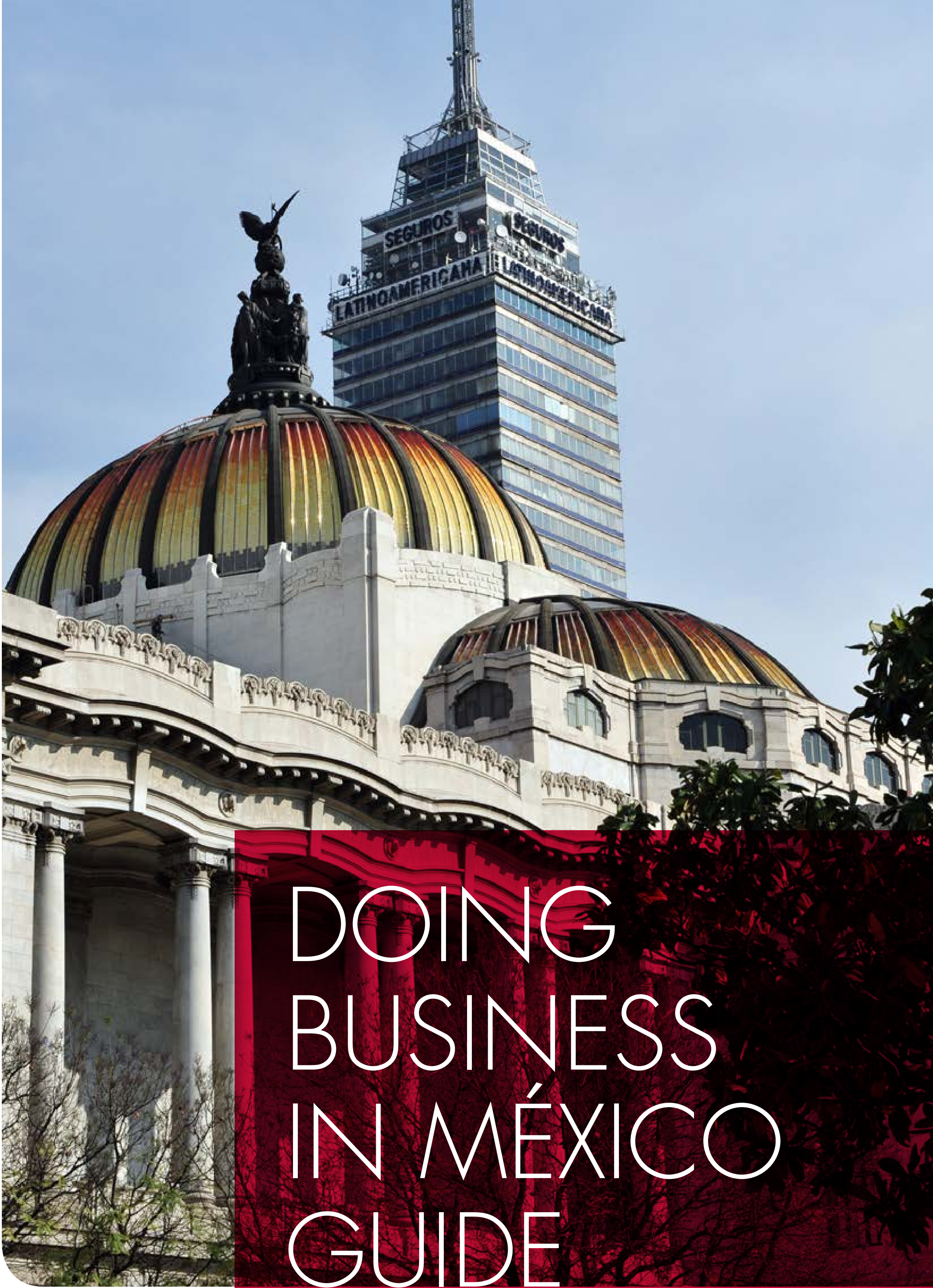

DOING BUSINESS IN MÉXICO GUIDE

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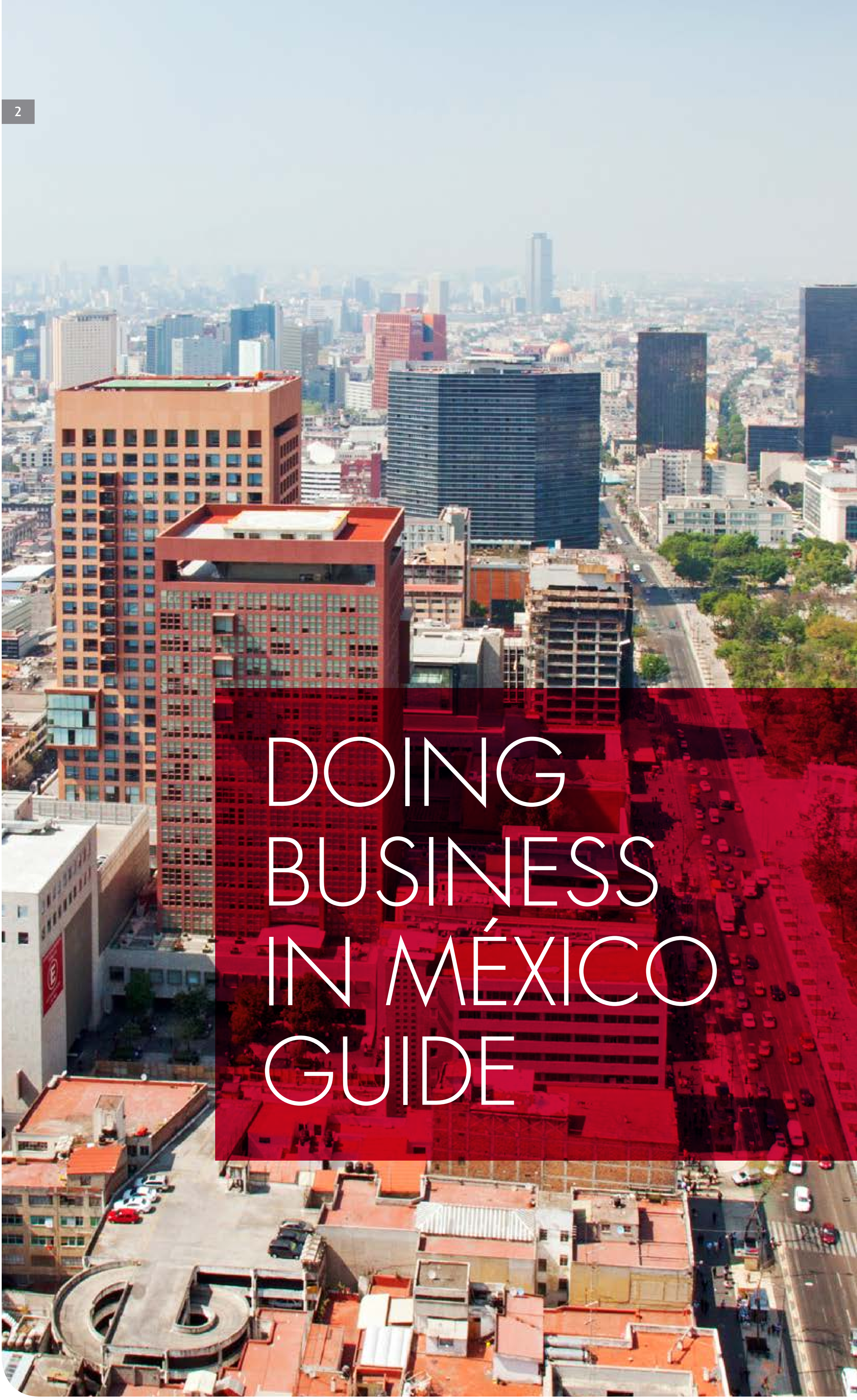

DOING BUSINESS IN MÉXICO GUIDE

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INTRODUCTION

The ECOVIS handbook "Doing Business in Mexico Guide" has been prepared to provide an overview of investment issues in Mexico. Topics covered include an overview of Mexico; the Mexican business environment; starting up a business in Mexico; taxation; banking and finance; financial reporting and auditing, and labor relationship and social security.

While the handbook "How to start up a business in Mexico" should not be regarded as offering a complete explanation of investment issues in Mexico, at ECOVIS Mexico we hope readers will use the handbook as their first point of reference and then use our service at ECOVIS Mexico to receive specific information and advice.

ABOUT ECOVIS

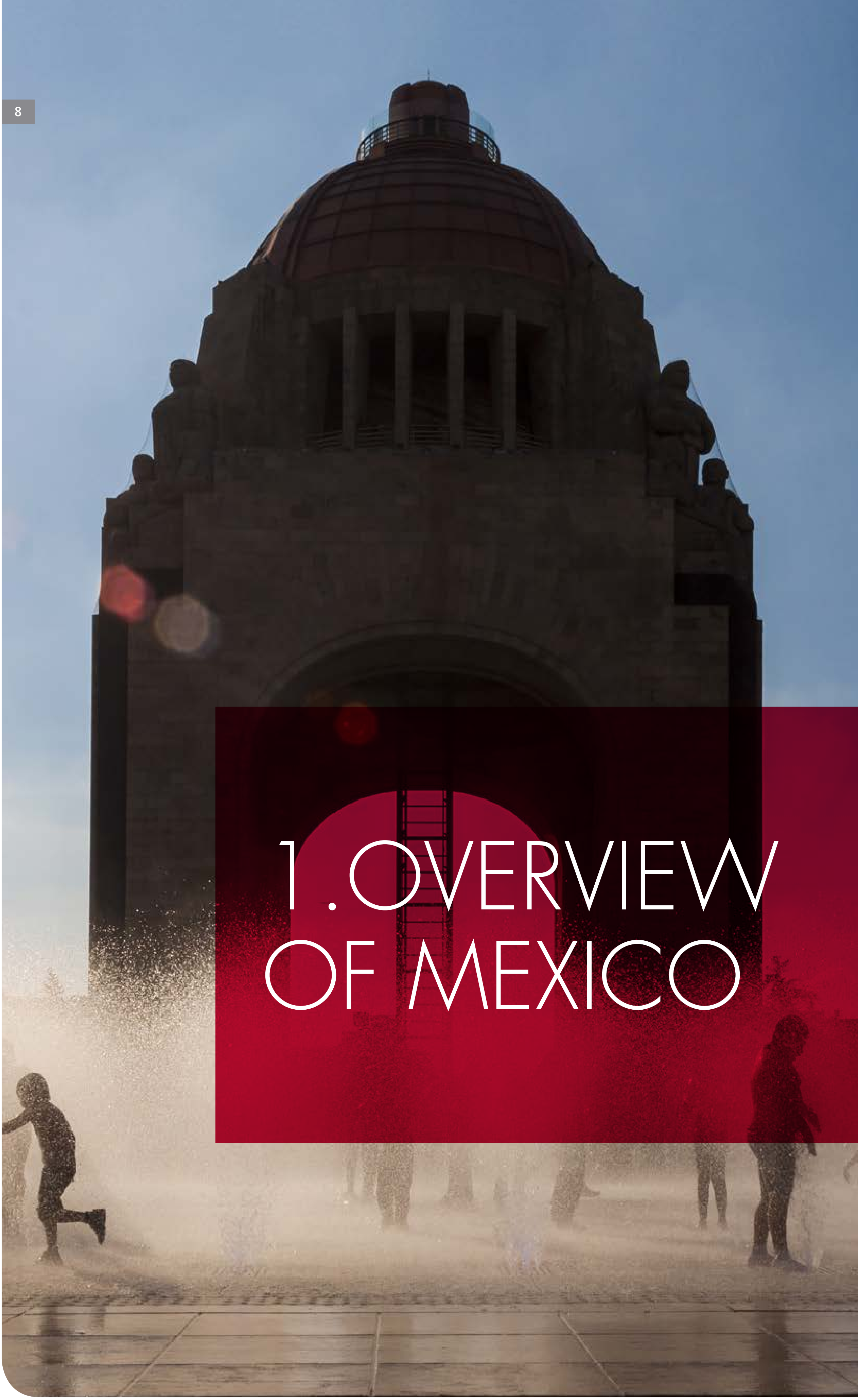
INTERNATIONAL

ECOVIS International is a leading consulting firm originating in Continental Europe. Over 5,500 professionals work within this multi-national network, providing knowledge and consulting in the areas of tax consultation, auditing, accounting and legal services in more than 60 countries over the 5 continents.

This diverse experience allows us to have a global vision, offering effective support to help our clients achieve their professional goals and objectives, making it easy to offer a superior and personalized service at a reasonable price.

MEXICO

As part of this worldwide network, in Mexico, ECOVIS Quibrera Saldaña is focused on generating results in the areas of auditing, taxes and finances of its clients, providing the highest quality in its services, which offers security, through tangible results that contribute to the creation of value, expansion and protection of its clients' wealth.



1.OVERVIEW OF MEXICO

1. OVERVIEW OF MEXICO

1. OVERVIEW OF MÉXICO

1.1. GEOGRAPHY

Mexico, officially called the United Mexican States, with an area of 1,964,375 square kilometers, is the world's thirteenth largest country.

It shares its northern border with the United States (U.S.) and its southern border with Belize and Guatemala. The eastern part is surrounded by the Gulf of Mexico and the west of the country borders the Pacific Ocean. Mexico, as well has three mountain ranges - the Western Sierra Madre, the Eastern Sierra Madre and the Southern Sierra Madre.

1.2. CLIMATE

Mexico's climate is determined by several factors, among which are the altitude above sea level, geographical latitude, various weather conditions and the distribution of land and water. Therefore, the country has a variety of climates; we can classify those according to their temperature in warm and temperate, or according to the humidity in humid, sub-humid and dry.

The rainy season usually occurs from May to October. There are very few regions, aside from the higher mountains, where it snows, usually in winter. Most of the coastal regions have a warm, humid, tropical climate.

Mexico City has a temperate climate and the annual average temperature ranges from 7°C to 22°C.

1.3. POPULATION

Mexico's population in 2014 is approximately 120 million people. The population average growth rate was 1.4% for the period 2000 - 2010. In 2010 the average age was 26 years.

1.4. LANGUAGES AND RELIGION

The official language in Mexico is Spanish. Despite this, 6.5% of the population spoke an indigenous language in 2010.

English is also used in the international business community in Mexico City and others cities in the country, like Monterrey and Guadalajara, as well as in the areas bordering the United States (U.S.)

Mexico has a rich and wide variety of religions including, among others, Catholicism, Christianism, Protestantism, Evangelicalism, Adventism, Jehovah witnesses, Judaism and Islam. In 2010, the main religion in Mexico was Catholicism with an 82.72% of followers and the second is Christianism with 7.47% of followers among the general population of the country.

1.5. GOVERNMENT AND LEGISLATION

Mexico is a Federal Republic divided into 32 states. The Political Constitution of the Mexican United States establishes three branches of government- Executive, Legislative and Judicial. The head of the executive power is the President, who is elected by direct popular vote for a period of six years and may not be reelected. There is a legislative as well as a judicial branch.

The legislative branch consists of the Senate, with four representatives from the Federal District (Mexico City) and each state (128 members), and the House of Representatives, with 500 members. Senators serve for a period of six years and Representatives for a period of three years.

The judicial system is charged with enforcing the Constitution and solving conflicts between the country's parties. The judicial branch is formed by the Supreme Court of Justice of the Nation (SCJN), and the Electoral Court, Collegiate Circuit Courts, a Unitary Circuit Court and District Courts.

The state governments are headed by popularly elected governors, who also serve for six years.

The states have their own legislatures and judicial systems.

The supreme law is the Constitution which is the foundation of the other laws.

1.6. ECONOMY

The economy is dedicated mainly to supplying the needs of the population. Mexico's economy is driven by external trade. However, proximity to the U.S. also provides a large market for the export of manufactured goods. Federal taxes on oil production and exports provide a substantial portion of the total resources of the federal government. Tourism, agriculture and mining also contribute to revenue.

The gross foreign debt is quite significant, which amounts to USD 164 million as of October 2015.[1]

The inflation rate for 2015 was 2.13%.

The gross domestic product per capita was of USD 10,361.30 in 2014.[2]

The current interest rate on Treasury Certificates (CETES) at a 28 day rate is 3.05% as of December 2015.

1.7. BUSINESS HOURS

Business offices normally open at 9:00 a.m. for an eight –hour working day, with one or two hours for lunch, starting at around 2:00 p.m.

Some banks are open from 9:00 a.m. to 4:00 p.m. and others open until 5:00 or even 7:00 p.m.

[1] *Source: http://www.banxico.org.mx/*
[2] *Source: http://datos.bancomundial.org*

1.8. MANDATORY HOLIDAYS

The Federal Labor Law establishes the following obligatory holidays:

January 1 (New Year's Day),

February 5 (Constitution Day),

March 21 (Benito Juarez's Birthday),

May 1 (Labor Day),

September 16 (Independence Day),

November 20 (Revolution Day),

December 25 (Christmas Day).

December 1 is an obligatory holiday held every six years for the beginning of the new presidential period.

Some of these dates are moved to the nearest Monday. Religious holidays are also observed by most business offices and banks, including the Easter Thursday and Easter Friday, November 1 and 2, and December 12.

1.9. CURRENCY

Mexico's national currency is the peso (MxP).

At the end of December 2015, the exchange rate was 17.2487 pesos per U.S. dollar.

Foreign currencies can be exchanged for pesos in banks and currency exchange houses.

2. BUSINESS ENVIRONMENT

BUSINESS ENVIRONMENT

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2.1. INVESTMENT CLIMATE

Mexico is an open economy, which through its network of free trade agreements, ensures access to international markets. The country offers competitive prices and a strategic geographical position, because it has a wide variety of natural resources, enabling the development of all kinds of industries. Mexico's industrial sector has been favored by free trade agreements and as of today, the Mexican Government has created an environment of openness and security for foreign investors.

In recent years, Mexico has become the largest exporter in Latin America, accounting for approximately 35% of the total trade in Latin America.

The United States (U.S.), due to its geographical proximity and the benefits of the North American Free Trade Agreement (NAFTA) is among the countries with greater investment in Mexico, as well as the cities that border this country, because it is where the assembly plants are located. In the Yucatan Peninsula, foreign investment is still being made due to its natural attraction. The sectors that have received the most foreign investments are the financial services, automotive, electronics and energy industries. The main importing countries are Germany, Japan and Korea.

Almost 80% of Mexico's exports go to the U.S. and about 50% of Mexico's imports are supplied by the United States. Perhaps the European Trade Agreements (TLCUE) shall become a major investment window in the future for the textile as well as the manufacturing industry, but the mentioned trading agreement is not as complete as the NAFTA.

The main foreign investors are: U.S., Spain, Canada, Germany, the Netherlands, Japan and Belgium.

Mexico has signed 11 Free Trade Agreements with 46 countries over the last 20 years, but also 32 Agreements on mutual protection and promotion of foreign investment (APPRIs), which are excellent alternatives to promote specific economic sectors which have been involved in a partial or complete trade agreement.

MEXICO TRADE AGREEMENTS

Name of the Trade Agreement	Member countries
AELC	Iceland, Liechtenstein, Norway and Switzerland
Agreement with Chile	Chile
Agreement with Colombia	Colombia
Agreement with Costa Rica	Costa Rica
Agreement with Israel	Israel
Agreement with Nicaragua	Nicaragua
Agreement with Uruguay	Uruguay
TLCAN	United States and Canada
TLCUE	European Union
TN	Salvador, Guatemala and Honduras
UNIQUE TLC	Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua

Source: http://www.promexico.gob.mx/comercio/mexico-y-sus-tratados-de-libre-comercio-con-otros-paises.html

Mexico has also signed 9 partial trade agreements (Economic Complementation and Partial Scope Agreements) within the framework of the Latin American Integration Association (ALADI).

In addition, Mexico is also part of the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), the Organization for Economic Cooperation and Development (OECD) and the ALADI, which has eliminated most export restrictions and essentially reduced export taxes.

Economic activity is concentrated in Mexico City. The country's economy is driven by foreign trade. In general, export earnings are related to the manufacturing, oil, agriculture and mining industries.

2.2. STARTING UP A BUSINESS IN MEXICO

Conducting a business in Mexico for foreign companies is therefore a decision that often requires consideration regarding what kind of vehicle shall be used for that purpose. Foreign investors could act directly, through a Branch office in the country, or perhaps incorporate a legal entity.

According to the Mexican Corporate Law, a foreign corporation may conduct business in Mexico by registering a branch office with the right to open a bank account and issue invoices. For tax purposes, branches are considered as a Permanent Establishment (PE), however, they do not have a separate legal existence from the foreign corporation, which may be liable for acts performed by the branch in Mexico.

Normally when limitation of responsibilities is an important issue to the foreign corporation, it is advisable to act in Mexico through a Mexican company, such as in cases when the term for rendering of services or conducting business activities in the country is expected to be unlimited.

On the other hand, with regards to the incorporation requirements and time frames, as well as the information required to incorporate a legal entity, the process is faster and less burdensome than incorporating a Mexican branch office, because it is more common and does not require to obtain an authorization from the Mexican Authorities to start operations in Mexico.

2.2.1. Type of Legal Entities

In order to incorporate a new Mexican company, it is necessary to choose one. Business entities are formed in accordance with different laws which are: The General Law of Commercial Companies (Ley General de Sociedades Mercantiles), the Securities Market Exchange Law (Ley del Mercado de Valores), the Commercial Code (Codigo de Comercio), or the Civil Code (Codigo Civil).

There are several entities that are accepted by the above-mentioned Mexican Laws, some of these are:

SPANISH NAME	ENGLISH NAME
Sociedad Anonima (S.A.)	Stock Corporation
Sociedad de Responsabilidad Limitada (S. de R.L.)	Limited Liability Company
Sociedad en Nombre Colectivo (S. en N.C.)	General Partnership
Sociedad en Comandita por Acciones (S. en C.)	Limited Liability Stock Partnership
Sociedad Cooperativa (S.C.)	Cooperative Association
Sociedad Civil (S.C.)	Civil Partnership
Asociacion Civil (A.C.)	Civil Association
Asociacion en Participacion (A. en P.)	Joint Venture
Sucursal de Sociedad Extranjera	Branch of a foreign Corporation

However, the most common are:

a. **Sociedad Anonima or Stock Corporation.-** There must be at least two shareholders (individuals or entities) of which must hold at least one share each. The Corporate Law does not establish a minimum amount of capital, but at least 20% of the fixed minimum capital must be paid off at the start. The shares are represented by nominal certificates which serve the purpose of accrediting and transferring the status and rights of their shareholders. Each share is equal in value and confers equal rights. However, it may be agreed in the deed of incorporation that certain shares will only confer a vote in special meetings held to deal with specific matters. Profit and capital are distributed in proportion to the nominal amount of the shares. The liability of the shareholders is limited to the value of their subscribed shares. The capital stock of the company is divided into shares with the same face value. A simple majority of shareholders has control, unless the bylaws establish a larger majority (e.g. for major decisions). 5% of net profits must be allocated annually to a legal reserve until the reserve equals 20% of the value of the principal authorized. Any reduction in the reserve must be restored to the 20% level. The general meeting of shareholders is the supreme authority of the company. General meetings may be ordinary or extraordinary, in nature, depending on the matters they deal with. Annual general shareholders meetings are required to discuss, approve or modify the financial reports submitted annually by the administrator(s). The administration of the corporation is entrusted to a sole administrator or board of directors (at least two) who may or may not

be shareholders. Officers may be Mexican or foreign. A statutory auditor must be appointed to monitor execution of the administration of the company different from the shareholders of the company.

b. **Sociedad de Responsabilidad Limitada or Limited Liability Company.-** It is comprised by partners (at least 2), but there may not be more than 50 (individuals or entities) whose liabilities are limited to the amount of their contributions. Shares in the capital may not be represented by negotiable certificates. The Law does not establish a minimum amount of capital, but at least 50% of the minimum capital established must be paid off at the start. Partnership interests apply instead of shares and could have different values and categories with a minimum of MxP$1 or its multiples for each. Each partner may hold only one interest. If a partner makes a new contribution or takes over part or all of the interests of another partner, the value of his interest is increased accordingly. The administration of the company is entrusted to one or more managers. If no appointment is made, all partners shall participate in the administration of the company. The general meeting of partners is the supreme authority of the company. Each partner has the right to participate in decisions taken at general meetings, with one vote for each MxP$1 of his contribution to the capital. General meetings are held at the company's principal place of business at least once a year, on a date specified in the articles of association.

   Each of these entities may be organized as a variable capital company (sociedad de capital variable).

c. **Joint Venture.-** Joint ventures may, at the parties' option, take the form of a public or private company, a partnership, an unincorporated association or may just be a contractual arrangement between the parties. The stock corporation with variable capital is the most common form, with the shareholders setting forth their respective rights in the articles of incorporation and by-laws.

   A contract is entered into for the purpose of conducting certain business activities. The contract establishes one party as the "joint venture", who is the party charged with the day-to-day administration of the business. The other parties to the agreement, the "silent partner(s)" contribute money or services in exchange for a share in the profits and losses of the business.

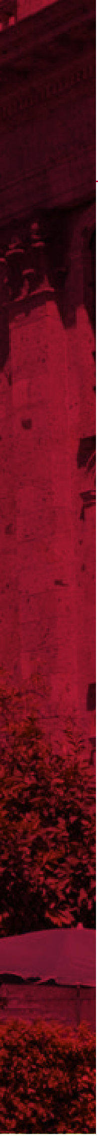
   Unincorporated associations do not have a separate legal personality, but are merely contractual arrangements between two or more persons or entities. Unincorporated associations must be established in writing, but are not registered in the Public Registry of Commerce. The joint venture carries out all business activities of the joint enterprise in its own name, and is only liable to third parties for all obligations assumed in relation to the joint enterprise.

The silent partners have no liability towards third parties under this arrangement. The joint venture may, however, sue the silent partners under the unincorporated association agreement.

d. Branch of a foreign corporation.- Pursuant to Mexican Law, a branch is the legally recognized presence in Mexico of a foreign company, which does not involve the creation of a new company. The foreign company must be incorporated in accordance with the laws of its jurisdiction of incorporation and submit to Mexican Law for commercial activities carried out in Mexico.

All business activities engaged in by the branch are done in the name and representation of the foreign company.

The foreign company must obtain the authorization of the National Foreign Investments Commission indicating where the branch desires to operate and submitting the articles of incorporation and by-laws of the foreign company, its inventory or latest balance sheets and the power of attorney of the person who is to represent the branch in Mexico. The articles of incorporation and by-laws and the power of attorney must be translated into Spanish and legalized by the consul of Mexico in the home jurisdiction of the company, or apostilled in accordance with the Hague Convention of 5 October 1961.



The authorization of the National Foreign Investments Commission (RNIE) must be published in the Federal Official Gazette. The authorization, the articles of incorporation and by-laws must be notarized by a notary public of Mexico.

The notary public must grant a public deed which must be registered in the Public Registry of Commerce (RPPyC) of the area in which the branch shall operate. In addition, the branch must be registered in the National Registry of Foreign Investments (RNIE).

Although a few companies have established branches in Mexico, they can have disadvantages for several reasons. Branches may not own real estate and they may not deduct payments to the head office for the concepts of interest, royalties, fees or other services. Establishing a branch takes more time and funds than establishing a company, and branch charters usually contain more restrictions than corporate charters. Because branch offices are not legally separate from the head office, the head office can be held responsible for the liabilities of a branch.

e. **Permanent Establishment.-** Any fixed place of business through which the business activities are conducted by the foreign corporation, can trigger a permanent establishment.

2.2.2. Time-scale for formation of a Legal Entity

One week to 10 days from the date on which the legal counsel or notary public has been provided with the relevant information regarding the company, i.e. its name, domicile and amount of the capital of the company, the shareholders (partners) and their participation therein, the directors (or sole administrator), the auditor(s) and, as the case may be, the general and/or special attorneys-in-fact. The time needed for the above must allow for the taking of legal advice, the drafting of the necessary documents and the required research regarding the availability of the corporate name before the Ministry of Economy (SE). The issuing of a permit to incorporate a Mexican company under a particular name by the Ministry of Economy (SE) may vary but normally it takes one to ten working days.

Incorporation may take longer under certain circumstances, such as the need to obtain authorization from Mexican authorities, including the Antitrust Commission (Comision Federal de Competencia Economica), where the company is involved with certain products or services, or the Ministry of Finance and Public Credit (Secretaria de Hacienda y Credito Publico- SHCP) for banking and other credit activities.

2.2.3. Documents required for incorporation

To incorporate a new entity, there are several requirements to fulfill, the most common are:

Company's by-laws (estatutos).- The basic incorporation of the company stating company's name; domicile; purpose; the amount of the authorized capital and its division into shares (or social participations); in general, the internal rules of the company governing shares (or social participations), the transfer and issue of shares, the calling, holding, proceedings, quorum and powers of general meeting, the appointment, removal, conduct and powers of directors or sole administrator and auditors, the declaration and payment of dividends and the dissolution and liquidation of the company. This document may be drafted either by a lawyer or by a notary public.

Permit for the use of the corporate name. - A permit must be obtained from the Ministry of Economy (SE) which keeps a record of corporate names. The permit may be refused when another Mexican company is currently operating under the same or a similar name or if special restrictions are provided for by law. The permit is valid for 180 calendar days from the date of issue. If the company is not incorporated within this period, a new permit must be obtained from the same office.

Transitory articles (clausulas transitorias).- Adopted at the first general meeting of the company. Contain the names of the shareholders (or partners) of the company or partnership and their participation in the company; the appointment of the board of directors (or managers) or, as the case may be, of the sole administrator, and of the internal auditor or auditors and any other resolutions the shareholders (or partners) may consider it convenient to take, such as increases of the capital stock, appointment of the external auditors of the company, etc.

The most common entities are the Stock Corporation and Limited Liability Company. It is advisable to know that foreign companies and individuals may own any portion or all of the equity of a Mexican company, however, there is an exemption to this rule and is for entities engaged in activities or acquisitions that are reserved or subject to specific regulation, such as banks, credit unions, oil and gas, electricity, postal services, and other governmental functions which are reserved for the Federal State.

2.2.4. Procedures Related to New Entities

Once the company has been duly incorporated, the shareholders or their attorneys must conclude the following procedures in order to allow the entity to operate without problems:

- Get a notice to the Public Registry of Commerce and Property (RPPyC).- This step is frequently carried out by the notary public who has issued the final official copy of the company's bylaws, and shall be executed at the location of its incorporation.
- Enroll it in the National Registry of Foreign Investment (RNIE). Any entity with foreign capital shall fulfill with this procedure. Between its liabilities it must fill out annual reports on the nature of the investment and its results.
- Get an importer's license. - If the company is required to carry out imports of raw or other materials, it must provide due notice to the Tax Authorities and get its corresponding registration, for that purpose it must provide the patent number of a customs broker.
- Enroll to Mexican Institute of Social Security (IMSS).- This procedure is required for both employers and employees.
- Housing Fund (INFONAVIT) and Retirement Savings Fund (SAR).- This liability is granted in favor to the employees.

2.3. MERGERS, SPIN-OFFS AND ACQUISITIONS

There are two different types of mergers 1) a vertical merger in which one company has already acquired the shares of the other company, and 2) a horizontal merger, where two or more companies are merged, with the assets and liabilities of one company exchanged for new shares of the surviving company.

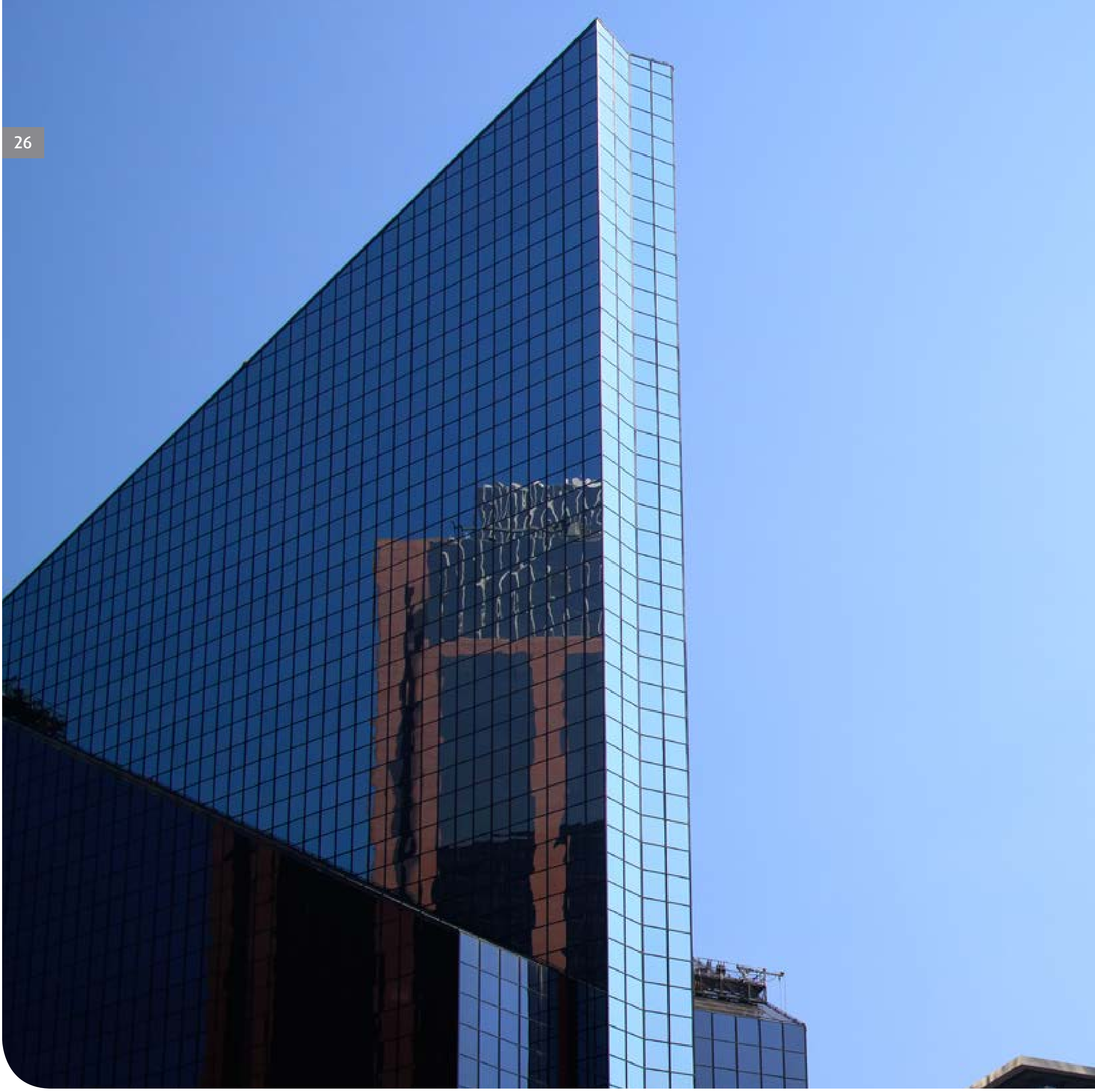
A corporate spin-off will be treated as a tax-free reorganization, provided that 51% of the shares with voting rights are maintained for three following years, beginning one year prior to the spin-off. The shareholders of the 51% must maintain the same proportionate holding in the capital of the resulting entities as they had in the original entity prior to the spin-off.

Mergers, spin-offs and acquisitions are taxed as transfers of property. Mergers and spin-offs will not be taxed if they meet the following requirements:

- Notifying the Tax Authorities
- Filing a tax return for the last fiscal year, as well as any required information statements through the surviving company in the case of a merger, or through the designated company in the case of a spin-off where a company does not survive.
- In a merger, the surviving company should continue to engage in the same activities in which it and the merged companies engaged in before the merger.
- If a merger is going to take place within five years of a previous merger or spin-off, an authorization must be obtained from the Tax Authorities.

3.BANKING AND FINANCE

BANKING AND FINANCE



3. BANKING AND FINANCE

3.1 INTRODUCTION

Mexico is among the cities that has important financial, industrial and commercial centres. The Financial System in Mexico plays a very important role in the functioning and progress of the country's economy. Within the financial system are development banks, public credit institutions, commercial banks, savings and loan associations and mortgage banks. There are also market institutions, insurance companies, credit unions, factoring companies, among others. The main intermediaries are the banks, offering their services directly to the public. Likewise, there are other intermediaries and organizations that offer useful services to society.

For Mexico's economic growth and the welfare of the population, an efficient, competitive and innovative financial system is needed. The highest administrative body is the Ministry of Finance and Public Credit (SHCP), which has aimed at obtaining monetary resources from various sources to finance the country's governmental function development. There are six other public institutions which aim for the supervision and regulation of entities that are part of the financial system, which are:

Financial System in Mexico

INSTITUTION	FUNCTIONS
1. The Central Bank (Banco de Mexico)	• Promote the healthy development of the financial system. • Autonomous institution within the federal government. • Puts the national currency into circulation and implements monetary and exchange rate policies.
2. National Banking and Securities Commission (CNBV)	• Supervise and regulate financial institutions. • Ensure the stability and proper functioning of financial institutions. • Maintain and promotes the healthy and balanced development of the financial system as a whole.
3. National Insurance and Bonding Commission (CNSF)	• Inspection and supervision of institutions and mutual insurance companies. • Inspection and surveillance of people and companies established by law on the subject.
4. National Commission for Retirement Saving System (CONSAR)	• Regulate and supervises the proper operation of the participants of the pension system. • Protects the interests of workers, ensuring efficient and transparent management of their savings, favouring a dignified retirement and contributes to economic development.
5. National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF)	• Promotes, advises, protects and defends the rights and interests of people who use or hire a financial product or service offered by the financial institutions operating within the national territory. • Creates and fosters proper culture of operations and financial services among users.
6. Institute for Bank Saving Protection(IPAB)	• Protects the deposits of small savers and thereby contributes to preserving the stability of the financial system and the smooth operation of the payment systems.

Source: http://www.banxico.org.mx/

Mexico generally does not have currency exchange controls.

There is no restriction on the import or export of capital. Repatriation payments can be made in any currency.

We can divide the Mexican financial system according to the activities that are carried out in the following sectors, currently all are directly and indirectly regulated by the SHCP through the relevant committees:

3.2. BANKING SECTOR

It is the sector that has increased its participation in the market and society. Banking deposits transform people into a source of financing for productive projects. This sector includes:

1. Commercial Banks

2. Development Banks

3.3. BANKING BUT NOT COMPLEMENTARY SERVICES SECTOR (PARALLEL)

Auxiliary credit businesses:

3. Money Exchange
4. Credit Unions
5. Factoring and Leasing
6. Savings and Loans
7. Sofomes

3.4. SECURITIES SECTOR

It is responsible for channelling resources directly to investors seeking credit, private companies or government. These operations are performed with securities that represent a liability or part of capital of the company to whom it delivers the borrowed resources.

3.5 DERIVATIVES SECTOR

This sector is involved in the purchase price or future sale of a determined financial asset.

3.6 INSURANCE AND FINANCE SECTOR

This sector is dedicated to providing coverage on probable personal or corporate events that may cause financial losses.

3.7 PENSION SECTOR

Within this sector all institutions that manage Retirement Funds and the Investment companies specialized retirement funds are involved. These institutions are dedicated to receive resources in order for active workers at retirement to be able to receive a pension with which to support themselves during their retirement.

3.8 MEXICAN STOCK EXCHANGE.

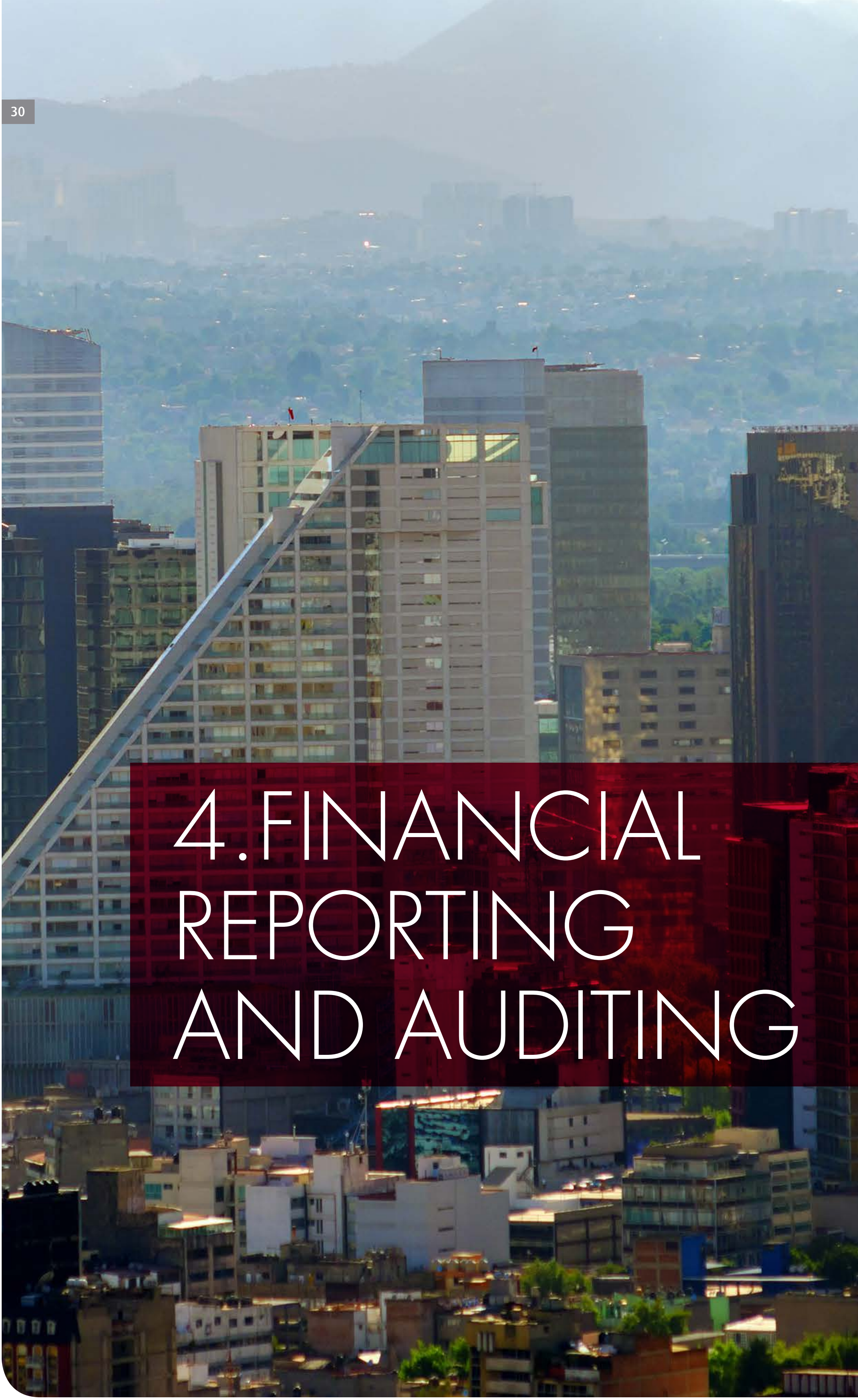
The Mexican Stock Exchange (BMV), is a private institution, which operates by grants from the SHCP subject to the Securities Market Law (LMV). It is a place where negotiations are conducted in securities trading, whose main responsibility is to facilitate the completion of transactions in securities and to promote market development. Among its main functions is to establish the policies, means, and mechanisms to facilitate relationships and transactions between supply and demand for securities, debt securities and other documents registered in the National Securities Registry (RNV) and provide the services necessary for the conduct of the issuing processes.

3.9. FATCA'S (FOREIGN ACCOUNT TAX COMPLIANCE ACT)

The SHCP in conjunction with the Treasury Department and the Internal Revenue Service (IRS) of the United States (U.S.), signed an agreement on November 19, 2012 to adopt the automatic and reciprocal exchange of information between the two countries, where U.S. citizens have accounts in another nation.

In Mexico, since January 2013, FATCA requires foreign financial institutions to exchange information, through a report to the IRS where the existence and details of accounts of U.S. citizens are integrated. This was done in two stages, first during 2013 as a transition year for the banking and financial institutions to prepare the technological and operational infrastructure necessary to collect information from pre-existing accounts and to transmit it to the IRS. And the second step, which began in 2014, involves reporting on any new accounts.

Financial institutions in Mexico have an obligation to provide information to the SAT regarding U.S. citizens and residents who hold bank accounts in the country, which together exceed USD 50,000 by the end of the year, so that the Mexican Government can automatically report to the authorities of the U.S. any information regarding its citizens (name, address, Federal Tax, average monthly balance and detail of their accounts whether they be in custody or deposit).



4. FINANCIAL REPORTING AND AUDITING

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4.1. SOURCES OF ACCOUNTING REGULATION

The Mexican Council for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera – CINIF) is recognized as the principal authority for issuing financial reporting standards in Mexico (Mexican FRS- Normas de Información Financiera–NIF). The CINIF issues pronouncements on accounting and reporting standards and updates them whenever necessary. Although the National Banking and Securities Commision (CNBV) has the legal authority to establish accounting and reporting standards for companies listed in the Mexican Stock Exchange, in practice, it has relied on the CINIF and its pronouncements.

According to Mexican FRS A-8, which establishes the basis for the supplementary application of International Financial Reporting Standards (Normas Internacionales de Información Financiera – NIIF), IFRSs are followed when a particular situation occurs that is not covered by Mexican FRS, and if neither a Mexican FRS nor an IFRS exists, FRS A-8 allows for the adoption of other standards, following the specific requirements provided by it to ensure proper application.

FRS B-10, 'Recognition of the Effects of Inflation on Financial Information' requires all companies to restate nonmonetary assets and liabilities, equity accounts and income statement items to account for the effects of inflation when cumulative inflation for the past three years is 26%. The method used to restate recognizes the effects of inflation in the financial information is the integral method.

Under this method, nonmonetary items have to be restated and presented in constant-peso amounts. The original cost is restated using the national consumer price index (INPC). Monetary items are not restated; however, they generate a gain or loss in its purchasing power due to inflation. The monetary gain or loss represents the effects of inflation on a company's monetary position during a particular time period. It is included in the income statement as part of the "Comprehensive cost of financing", which incorporates interest, exchange gain or losses, and monetary gains or losses.

All financial statements must be expressed in constant peso terms at the end of the year. This presentation means that items, including sales and operating expenses, must be re-expressed in terms of the purchasing power of the Mexican peso at the end of the year. Comparative financial statements are required and thus amounts of previous years must also be restated in the constant peso value at the end of the last reported year..

4.2. ACCOUNTING REFERENCE PERIOD

The accounting reference period is 12 months. To comply with Mexican Income Tax Law (LISR as per its Spanish acronym), the Federal Tax Code (CFF as per its Spanish acronym) and the General Law of Commercial Companies (LGSM as per its Spanish acronym) an entity's fiscal year must coincide with the calendar year. However, an entity may choose a period (12 months) other than the calendar year for internal purposes. This may occur when Mexican Companies are subsidiaries of foreign entities whose fiscal year is other than the calendar year and for the purposes of worldwide consolidated financial statements.

4.3. ACCOUNTS AND REPORTS

A company must prepare individual accounts for each fiscal year of the entity comprising the following basic financial statements: balance sheet or statement of financial position, income statement or statement of comprehensive income, statement of changes in stockholders' equity, statement of cash flows. Significant accounting policies used in the preparation of financial statements and notes to explain the information presented must be included. The financial statements must be presented at the annual shareholder's meeting and approved by the shareholders. Financial statements must be drawn up on a consistent basis every year.

In case a company is a holding company of a group, Mexican FRS requires preparation of consolidated financial statements of the company and its subsidiaries. In addition, holding companies whose securities are traded on the Securities Exchange are required by CNBV provisions to file individual and consolidated financial statements annually.

The company's external auditor must prepare an auditor's report addressed to the board of directors and stockholders stating whether the financial statements present fairly, in all material respects, the financial position of the company (and its subsidiaries where applicable), and the results of their operations, changes in their stockholders' equity and changes in their financial position, in conformity with FRS.

4.4. BOOKS AND RECORDS

All Mexican companies must maintain detailed accounting records in Spanish using Mexican Pesos (MxP). Mexican companies must maintain the following: a general ledger; a general journal; an "inventories and trial balances" record; books recording minutes of both board of directors' and shareholders' meetings; a record of investments in shares; a record of debts in foreign currency, credit and cash; and a record of its registered shares. The main books and records, together with all supporting documentation, must generally be maintained at the official domicile of the business and remain available for 10 years.

4.5. AUDITING STANDARDS

The Mexican Institute of Public Accountants (IMCP) through the Auditing Standards and Procedures Commission, issues the generally accepted auditing standards. The auditing standards must be followed by the independent public accountant who audits financial statements for the use of third parties. The generally accepted auditing standards in this area include: technical training and proficiency, independence, performance of work and reporting.

The auditing standards relating to the auditor's report state that auditors should distinguish between their responsibilities and those of the management by including in their report a statement that the financial statements are the responsibility of the company's management and a statement that the auditors' responsibility is to express an opinion on the financial statements.

Auditors must include in their report a statement that they conducted the audits in accordance with auditing standards, which require the auditors to plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatements and that they are prepared in accordance with the FRS.

A statement of the auditing process includes:

1. Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
2. Assessing the FRS used and significant estimates made by the management, as well as an assessment of the overall financial statements presentation must also be included.

The auditor's report must state whether, in the auditor's opinion, the financial statements under review present fairly, in all material respects, the financial position of the company as of (the balance sheet or statement of financial position date), and the results of its operations, changes in its stockholders' equity and changes in cash flows for the period then ended, in conformity with the FRS generally accepted in Mexico.

The auditor's report may include an unqualified or qualified opinion. The auditors may qualify their report because there is a limitation on the scope of the auditor's audit, or because of departures from FRS. They may issue an adverse opinion when the effect of the departure is so pervasive that the auditors conclude that the financial statements are seriously misleading. They may also issue a disclaimer of opinion, whenever they are unable to form an opinion because of a limitation in the applied scope and they have not performed an audit that is sufficient in its scope to enable them to form an opinion on the financial statements.

Public accountants who issue financial statements must be registered with the tax authorities, be of Mexican nationality and must have current certifications issued by professional bodies or associations of Accountants registered and authorized by the Secretary of Public Education (SEP). This certification is the record that supports the knowledge, abilities and skills required for the exercise of the profession. Their revalidation should be performed periodically to ensure they are professionally up to date and capable of providing high quality services to customers and users.

4.6. OTHER AUDITING REQUIREMENTS

Companies with securities listed on the Mexican Stock Exchange (BMV) must comply with several disclosure requirements issued by the CNBV, and are required to have independent auditors perform annual audits of their financial statements.

Under the LISR, companies and individuals engaged in business activities that meet any of the three following criteria will be able to choose to audit their annual financial statements for tax purposes by a public accountant registered with the Ministry of Finance and Public Credit (SHCP). These criteria must be met in the preceding year in order to determine whether the obligation exists for the reporting year. The third and most common criteria are gross income exceeding MxP $100 million, assets exceeding MxP $79 million or having at least 300 employees (for each month of the fiscal year).

The amount of income and value of assets is subject to an annual restatement.

5. TAXATION

TAXATION

5. TAXATION

5.1 TAX SYSTEM

5.1.1. Main Taxes

The main taxes that are payable in Mexico are those levied by the Federal Government, State and Municipal Governments. The main taxes are as follows:

1. Federal taxes:
   a. Income Tax (IT).
   b. Value Added-Tax (VAT).
   c. Special Tax on production and services (IEPS by its spanish acronym).
   d. Custom duties.
   e. Social Security Tax.
2. Local taxes:
   a. On real property.
   b. On salaries.

5.1.2. Legislative Framework

The Congress annually approves the Federal Revenue Law (LIF as per its Spanish acronym), which mainly includes a list of the federal taxes to be imposed during the year. The Ministry of Finance and Public Credit (SHCP) is empowered to issue regulations for the enforcement of the Tax Laws.

The Annual Omnibus Tax Ruling published by the Tax Authorities may be relied on by the taxpayer, although they do not have the force of the law. Retroactive legislation is not allowed by the Constitution and its application is not legal.

5.1.3. Classes of Taxpayers for the Income Tax

Taxpayers could be divided into four main groups:

1. Resident companies and other organizations taxable as companies and those under a joint venture contract. These taxpayers are required to include all their incomes from all sources in an annual income tax return.

   A branch of a foreign company formally registered to do business in Mexico, as well as any other Permanent Establishment (PE) for income tax purposes, is generally taxed the same as a Mexican company, for all income attributable to such branch or PE in Mexico.
2. Resident individuals. These taxpayers are subject to Mexican taxation on their worldwide income of all types, most of which must be included in an annual personal income tax return.
3. Nonresident (foreigners) companies and individuals. The nonresident companies that have a permanent establishment for income tax purposes are taxed in the same way as a duly registered branch of foreign companies, basically following the rules for resident companies.

Nonresident Mexican or foreign individuals are taxed only on their Mexican-sourced income, (gross income without deductions) although under special rules they may choose to be taxed at higher rates on net taxable profits from sales of real property or capital stock or short-term construction and similar work. No annual income tax return is required of nonresidents.

4. Nonprofit organizations. Under the Mexican Income Tax Law (LISR as per its Spanish acronym), a limited number of organizations and government agencies are exempt from taxes. Other nonprofit organizations are generally considered non- taxpayers, rather than as being exempt from tax. These include a limited number of civil societies and civil associations that are specifically designated as such, although they are required to file the annual income tax returns to determine their net excess of income over expenses, and their members are subject to tax only as to any amounts of net income that are actually distributed.

5.2 TAX ADMINISTRATION

5.2.1. Tax Authority

The Tax Administration Service (SAT) is a decentralized agency responsible for assessing and collecting federal taxes and customs duties, while the Departments of Finance of each state or municipality are responsible for collecting state and local taxes. The federal government and the states have entered into agreements for tax coordination and administrative cooperation, with the states now responsible for collecting and auditing the correct payment of federal taxes.

The rights of the Tax Authorities in relation to auditing, enforcement, assessment and collection of taxes (including electronic fiscal audit) expire after 5 years from the date on which the income tax return is due.

The statute of limitations will be extended for 5 (but no more than 10) years as from the date a restated income tax return is prepared for any category of items adjusted in a restated income tax return. The term is 10 years if the taxpayer is not registered in the Federal Taxpayer's Registry (RFC) of the SAT, does not maintain accounting records or fails to file an income tax return. In the latter case, the 10 –year term is computed from the date the return should have been submitted.

5.2.2. Period of the fiscal year

The fiscal year is the calendar year (from 1 January to 31 December)

5.2.3. Obligations of the taxpayers

a. Advance Payments, Monthly Payments and Annual Return

Corporate Taxpayers must make 12 advance payments and definitive payments for the Income Tax (IT) and Valued Added Tax (VAT), respectively, on the 17th day of each month. The annual income tax return must be filed no later than 31 March (30 April to individuals) of the following year and to pay the balance of tax due at that time. An annual information return regarding transactions with related parties abroad should be filed with the annual income tax return.

b. Informative Return

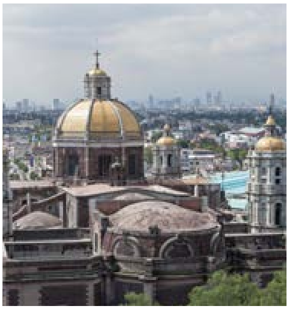
An annual informative tax return that includes information on withholdings, donations and salaries, loans received from or guaranteed by foreign residents, must be submitted to the tax authorities no later than 15 February of each year.

c. Withholding Taxes

In many cases a company making payments to third parties is required to withhold and pay to the Tax Authorities an amount of income tax on account of the recipient. In all such cases the company is jointly liable for the tax that should be withheld, and on failure to do so it is subject to penalty interest and fines.

The withholding obligation exists in general for all payments to individuals, including employees, and payments to foreign entities that are not registered in Mexico. In all cases where the LISR does not establish a specific period within which companies should remit taxes withheld, the period for payment will be the 17th of the month following that in which the taxes should be withheld.

d. Penalties and Fines



Penalty interest (surcharges) for late payment of tax is assessed at 0.75% per month if an extension has been granted; otherwise the rate is 1.13%.

Fines may also be assessed in the case of tax omitted, unless the taxpayer voluntarily pays the omitted tax or corrects the obligation not complied with prior to a formal request for payments or to a receipt of a notification of an audit for the year in question.

e. Electronic Invoicing

Taxpayers have to issue digital tax receipt issued via the internet for selling products or rendering services.

f. Advanced Electronic Signature

Entities may now apply for their advanced electronic signature through an attorney in-fact or legal representative.

g. Taxpayer's mailbox

The purpose is to have an electronic communication system between the taxpayers and Tax Authorities whereby taxpayers may file motions, requests, notices or file tax obligations and even to submit rulings about real and specific situations and file appeals for reversal, among other issues. Taxpayers must have their advanced electronic signature to be able to use such a mailbox.

5.2.4. Rights of the Taxpayers

a. Advance Payments, Monthly Payments and Annual Return

Taxpayers can ask a refund for undue payments or tax credit balances that comply with certain requirements.

b. Tax Offset

Taxpayers can offset their tax credit balances against taxes payable (including tax withholdings) but certain requirements are required.

c. Rulings

Taxpayers may request the Tax Authorities (SAT) for a ruling in connection with the interpretation of tax provisions in specific cases that are not already under review by the Tax Authorities.

The authorities must make a decision within three months from the filing of a petition. If no decision is made within this period, the request is deemed as having been denied.

These rulings are binding for Tax Authorities only when the matter under discussion refers to a real transaction and its terms remain unchanged.

d. Opinion by Certified Public Accountant

Taxpayers that choose to have their financial statements audited by a certified public accountant must file these statements (along with the auditor's opinion on the taxpayer's compliance with the Tax Law) by 15 July of the following year of the financial year in question.

e. Appeals (legal actions)

If tax deficiencies are determined as a result of an audit by the Tax Authorities, any objections the taxpayer may have against any of the findings included in the report issued by them must be stated and included in the same report at the conclusion of the audit.

The foregoing notwithstanding, the taxpayer may appeal to the Tax Court or Civil Courts, requesting that the audit assessment be canceled. Court cases are handled by attorneys, but, in any event, usually with assistance from accountants.

The three levels of legal actions are:

a) **Revocation hearing before the Administrative Authorities.-** This action is brought through a supervisory area and consists of the Tax Authority reconsidering its assessment by presenting logical and legal arguments. Among the benefits of this procedure is to obtain the immediate suspension of any

enforcement powers the Tax Authorities have to collect the assessed taxes, and the taxpayer would not have to guarantee the taxes under dispute during the process. According to the Federal Tax Code (CFF as per its Spanish acronym) there is a period of 30 days to bring this action before the Administrative Appeals Office.

b) Administrative law action.- this action of annulment must be filed at the Metropolitan Regional Chamber of Federal Tax Court (TFJFA), within 45 days after receiving the notice of the tax assessment.

This Tax Court holds jurisdictional autonomy, meaning that it does not depend on any other administrative office. This allows the company to provide evidence of any administrative records and all related documents properly submitted to tax authorities for a second evaluation. The Federal Tax Court (TFJFA) can partially or totally uphold, dismiss or place the tax authority's decision on hold.

The legal action must be executed in time, otherwise the tax assessment shall be definitive.

Once the lawsuit is accepted, the court will require the defendant to file its appropriate arguments in defense of the tax assessment. Later, the parties shall provide evidence, arguments and a ruling will be issued, naming the effects of the judgment, i.e., the annulment of the decision being challenged.

The legal proceedings in the TFJFA could take approximately 12-18 months after the claim is admitted.

However, if a favorable judgment is obtained, the authorities could appeal the judgment of the TFJFA.

If the company is not able to obtain a favorable result at this stage, it can initiate a final action before the Supreme Court of the Nation (SCJN).

c) **Writ of amparo (constitutional protection).-** this action can be promoted in two ways: direct and indirect, to enforce the unconstitutionality of any law and is submitted to the SCJN, the Collegiate Circuit Courts in administrative matters, and the District Courts in administrative matters. This procedure could take approximately 5 months after the claim is admitted.

f. Final Settlement Agreements

These agreements are an alternative dispute resolution method when the authorities exercise their auditing powers. Taxpayers must request such final settlement agreement to the Office of the Taxpayer's Advocate (PRODECON) in order to: a) assist in the establishment of a position regarding any particular aspect disputed, or b) find a way to self- correct their tax status with regard to specific points.

In any case, it has been considered that "final settlement agreements" will afford the parties involved a legal certainty, whereas if the relevant resolution favors the taxpayer, the authorities may not file and administrative action against the detrimental resolution (juicio de lesividad) and a contrary, if the resolution issued is in favor of the Tax Authorities, the tax payer may also not file any action or appeal against such resolution.

One of the main advantages of this type of agreements is that when the taxpayer agrees to conduct a self-correction, it may have any fines due condoned in their entirety (on the first occasion), or it may be given the option to pay in installments, which also be applicable when the taxpayer wishes to conduct a self-correction in any of the available forms while the Authorities are exercising their auditing powers.

5.3 INCOME TAX FOR ENTITIES

5.3.1. Criterion of Taxation

Mexico takes the residence and source of wealth into consideration as criteria for taxation of companies.

The Residence is met when the companies have their main business administration, or their place of effective management in Mexico, regardless their nationality. Mexican tax laws do not contain a definition of the concept of source of wealth; nevertheless, it includes specific types of withholding in respect of income earned in Mexico.

Entities resident in Mexico are obligated to pay income tax on their worldwide income, and at the same time they have the benefit of crediting the income tax paid abroad fulfilling specific requirements.

5.3.2 Taxable Entities

The tax system establishes a pre-tax on a net base, and foreign entities are considered taxpayers of income tax when they obtain an income from a Mexican source. Income is deemed to derive from

Mexican sources when the assets or activities are in Mexico or when sales or contracts are carried out in the country.

5.3.3 Taxable Base

Mexico has established a tax system over net basis, it consists in subtracting, from incomes earned in a fiscal year, the amount of authorized deductions, paid employee profit sharing (PTU as per its Spanish acronym) and ordinary tax loss carryforwards from prior years, if any.

It is relevant to point out that Mexican law considers inflation effects as income or deduction, as the case may be. There are two independent procedures i) currency exchange profits and losses, and ii) annual inflationary adjustment.

A. Gross Incomes

Residents in Mexico are subject to tax over its taxable income obtained in a fiscal year. Gross income could be considered those obtained in cash, goods, services, credit, and otherwise.

The income tax must be calculated every fiscal year, but it is necessary to file monthly advanced payments to pay the annual tax.

The Mexican Income Tax Law (LISR as per its Spanish acronym) distinguishes three different types of revenues: 1) taxable income, 2) non-taxable income, and 3) non-tax revenues.

1. **Taxable income:** As a general rule all income should be taxable except if it comes from non-taxable income, or non-tax revenues, as appropriate. Taxable income comprises gross revenues plus currency and inflationary gains.
2. **Non-taxable income:** Dividends or profits received from another Mexican resident entity.
3. **Non-tax revenues:** Capital contributions, from use of the method of participation for valuation of the entity's shares, and premiums for placement of shares issued by the entity.

B. Deductions

The entity can consider all expenditures related with its corporate purpose, nevertheless, such disbursements should meet specific requirements, among others; deductions have to be strictly necessary to realize the activity of the enterprise, and the taxpayer must obtain an electronic invoice, and the payments have to be made through wire transfer, credit card, or check.

Deductible items include business expenses, depreciation of fixed assets, accrued interest, cost of sales, pre-operating and organization expenses, local taxes, certain social security taxes, donations to charitable entities and the government under certain circumstances, interest, royalties, remuneration of personnel, workers welfare, insurances, and bad debts fulfilling specific requirements for each one.

It is important to note that Mexico does not allow the deduction of federal taxes (IT and VAT), entertainment expenses in general, expenses allocated on a pro rata basis with foreign related parties (except for PE), amortization of goodwill, interests from thin-capitalization, penalties (except if it is established by Law), fines and indemnities when the taxpayer is responsible of them, payments

made to entities located or resident in a low tax jurisdiction (unless it is proved that the transactions are carried out with non-related parties or at arm's length prices).

There are different deductions which have a special treatment, in the following terms.

a) Cost of Sales

The deduction of the cost of sales comes when the merchandise is sold. The cost of manufacturing entities includes salaries of workforce and depreciation of fixed assets related with the production of goods.

b) Fixed Assets

Fixed assets are deductible under the depreciation scheme in accordance with the allowed rate. There are three criteria: i) intangible fixed assets, ii) tangible fixed assets, and iii) according to the activity in which the fixed assets are used. The depreciation rates currently range from 3% up to 100%; the upper depreciation rate applies to animals and vegetables, machinery used in the activity for the generation of energy from renewable sources, and adaptation of fixed assets for the benefit of people with disabilities.

In the first instance, royalties and technical assistance are treated as intangible fixed assets deductible annually at 15% on their amount, however, when the benefit of these concepts and their payment converge in the same fiscal year, the taxpayer could deduct each concept as an expense.

c) Royalties. Technical Assistance and Interest Paid to Foreign Related Parties

The deduction of royalties applies as long as the payment has been done.

Furthermore, the beneficiary of the royalties and/or technical assistance must keep enough evidence to prove to the Tax Authorities that the supplier possesses the knowledge and technical elements to develop the service, and such service was directly rendered by the supplier (related party).

The LISR does not allow for the deduction of interest from debts contracted with related parties' which exceeds three times its net worth, as a rule the average which surpasses the limit will not be deductible. This rule is known as thin capitalization.

In addition to the above, any payments for royalties, technical assistance, and interest are not deductible if:

- The Mexican resident entity controls its related party, or vice versa.
- The payment is made to entities located or resident in a low tax jurisdiction, and the price is not in accordance with the arm's length principle; or
- Payment is non-existent or it is exempt for income tax purposes in the supplier's jurisdiction.

C. Gain and Loss on the Sale of Capital Goods

Gains obtained from the sale of fixed assets, or shares, should be part of the ordinary taxable income of the year they are completed.

To determine the shares value, there are two procedures taking the period the shares were held by the partner into account (twelve months or more than this).

With regard to shares with a holding period of no more than twelve months, the cost of acquisition shall be increased by the inflation, but if the holding period were to be greater than twelve months, in addition to the inflation, the cost should be affected with the account of net taxable profit (CUFIN) and losses obtained, both prior to and after of the shares acquisition, as well as the capital redemptions performed into the holding period.

Losses on the sale of shares are only set off against gains of the same nature in the fiscal year of the sale or within next ten fiscal years, as regards losses from fixed assets, they form part of the deductions in the exercise that occurred.

D. Dividends

The companies resident in Mexico that receive dividends from a foreign resident must consider such an amount as taxable income, and the recipient has the right to credit the income tax paid at the source (withholding and the tax paid by the foreign company, if any) if certain conditions are met.

As per virtue of the tax reform of the fiscal year 2014, there is an obligation to keep two records of the account of net taxable profit, one of them should include the net tax profits generated prior 2014, and the other for those generated since that year. Dividends from net taxable profit up to 2013 are not subject to tax, however, there is an 10% withholding income tax if the dividends come from the net taxable profit of 2014 or later, and, if the receiver is an individual (regardless of his residence), or a company with a tax residence abroad.

Also, if the dividends or profit distributed by the legal entity do not come from the CUFIN, the company that distributes them will trigger the tax amount, for which it will compute the tax on a base adjusted by a factor, to which result the general rate of the income tax will be applied.

In accordance with the afore-mentioned, if the recipient of the dividends or profits is a Mexican resident legal entity, the dividend will not be a taxable income, but its amount will increase the CUFIN account balance.

Most of the tax treaties signed by Mexico contain a 5% withholding on the income tax at the source for dividends paid to members of the other contracting states; therefore, it is necessary to review each particular case taking the beneficial owner of the income into account.

5.3.4 Corporate Tax Rate, Fiscal Year and Date of Tax Payment

The corporate income tax rate applicable to a Mexican resident company is 30%.

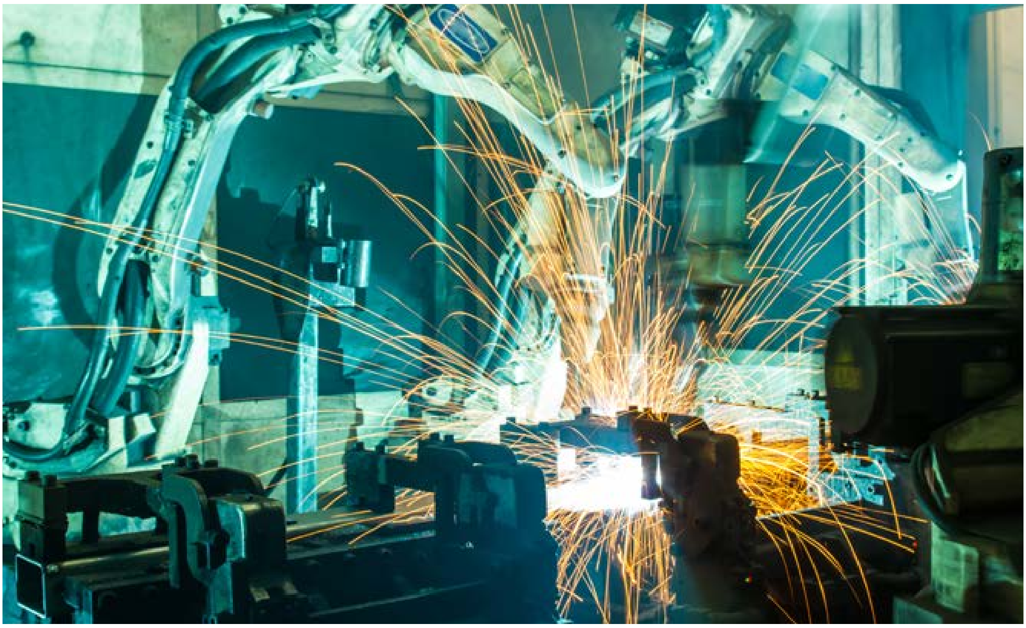
The fiscal year coincides with the calendar year, except for start-up operations or liquidations, mergers or spin-offs, in which cases the fiscal year will be irregular, and will either start or end when the taxpayer files its notice to the tax authorities.

The income tax shall be paid through a tax return within three months following the close of the fiscal year.

Mexico uses the self-assessment system whereby all companies are required to file a tax return and compute their own liability. Legal entities must file the income tax return within three months follows to close of the fiscal year (in March)

5.3.5 Tax Loss Carryforward

An operating tax loss incurred in a fiscal year may be decreased from the taxable profits of the ten subsequent years until exhaustion without limit to the amount of tax losses that can be offset in a fiscal



year, but if a taxpayer who was entitled to deduct in a fiscal year the tax losses of preceding fiscal years fails to do so, the right to deduct the amount thereof in subsequent fiscal years shall be forfeited. The amount of net losses is subject to inflationary adjustment based on the National Consumer Price Index (INPC).

In case of a merger, net losses are not transferable to the surviving company; but if such losses belong to said entity, losses will only be set off against profits deriving from the same type of activities that generate them.

On the other hand, in split-offs net losses accumulated by the original company may be divided in proportion to the inventories and accounts receivable if the companies are sharing the same line of business; otherwise, the net losses will be distributed in proportion to the fixed assets of the divided companies.

Should ownership and control of the company have changed, losses may be carried forward and set off only against profits from the same type of activities that generated the losses, provided the sum of the revenues derived during the last three fiscal years by that company is less than its losses accumulated by the end of the fiscal year where the change of ownership and control occurs.

LISR does not prevent rules regarding carry-back procedures.

5.3.6. Taxation of Groups of Companies

As part of the tax reform of the 2014 fiscal year, the tax consolidation regime which allowed to defer tax payment for a 5-year period was abrogated; however, companies that obtained an authorization before that year could continue using the scheme for an additional five years from the date of granting of the permission.

A new regime for groups of companies was introduced in the LISR, under which corporate groups can defer part of their income tax for a maximum period of three years. This regime also considers the holding and subsidiaries companies; the requirements to act as holding company are: i) to be a tax resident in Mexico, ii) to be the owner of more than 80% of the voting shares of one or more entities, and iii) in no case may over 80% of its voting shares be directly or indirectly owned by one or more companies except if Mexico has signed a comprehensive agreement for the exchange of information; on the other hand, a subsidiary company qualifies if more than 80% of its voting shares are directly or indirectly owned by one holding company.

The deferred income tax is calculated applying a coefficient which is calculated from the consolidated pre-tax base divided by the sum of the pre-tax amount of each participating company. Deferred tax, plus inflation effect should be paid within three months follows to close of the fiscal year.

The income tax must be paid before three years in merger and spin-off cases.

5.3.7. Income Tax for Nonresidents

As a rule, the LISR imposes a withholding rate of 25% on the gross payment for the revenues with source of wealth in the country, but there are items with different withholding tax rates i.e. interest, prizes, insurance premiums, among others.

Mexico has in place over sixty double tax agreements where normally a preferential withholding rate is agreed, this measure helps to reduce the tax burden, provided that the both the taxpayer and the effective beneficial owner met certain tax requirements.

5.3.8 Permanent Establishment (PE)

Permanent Establishment (PE) is considered as a separate entity for tax purposes, under this legal figure, the resident abroad should only pay income tax from revenues accrued from a Mexican source of wealth. Its fiscal treatment is similar to the legal entities with the follow features:

- A foreign company can have one or more permanent establishments.
- Additional taxable incomes:
    - Those derived from alienation in Mexico of merchandise or real property not belonging to the permanent establishment.
    - Revenues obtained by the central office in the proportion that the permanent establishment participates of the disbursement to generate them.
- Deductions:
    - If there is a double taxation convention, the permanent establishment may deduct pro rata expenses. (According with the domestic law)
    - The LISR does not allow for the deduction of remittances, royalties, personal services, commission fees, nor interest agreed upon with the company abroad.

▶ 5.4 INDIRECT TAXES

5.4.1. Value- Added Tax

The Valued- Added Tax (VAT) applies to transactions concerning transfer of goods made or services provided in Mexico by a taxable person, supplies of goods and services subject to the reverse charge, grants of temporary use or exploitation of goods and importations of goods from outside Mexico.

A taxable person is any business entity or individual, either resident in Mexico or a nonresident who makes taxable transactions in Mexico. A business entity or individual is liable to register for VAT, effective from its first taxable transaction. A non-resident without permanent establishment in Mexico must appoint a tax representative to register for VAT purposes.

The VAT applies at the standard rate of 16%, unless a specific measure provides for the 0% rate (Exported goods, certain exported services, unprocessed food and milk and patented medicines) or an exemption (supplies of goods and services that are not liable to tax. Exempt supplies do not give rise to a right of tax deduction input).

Effective 1 January 2015, all temporary imports made by companies who operate under the IMMEX program are subject to VAT at the standard rate. Previously, import VAT was not applied.

5.4.2 Special Tax on Production and Services (IEPS)

The Special Tax on Production and Services (IEPS as per its Spanish acronym) is an excise tax which is levied on sales, imports or rendering of services regarding gasoline, diesel, tobacco, alcohol, gambling, energy and sugary drinks, fossil fuels, junk food (food which contains or exceeds energy of 275 or more kilocalories per 100 grams is taxed at a rate of 8%) and some telecommunication services. The rate of the tax varies depending upon the type of good or service.

The IEPS is also applicable to the organization and operation of gambling games which are taxable at the 30% rate, though government permission and several liabilities must be accomplished.

According with the mentioned mayor tax reform passed earlier this year by Mexican Congress, the IEPS has received a few changes within the tax applies to:

- Fuel and pesticides.
- Certain Liquors are levied with different rates depending on its alcohol volume, including beer:

  Up to 14º G.L................................ 26.5%

  Over 14º and up to 20º GL 30%

  Over 20ºG.L 53%
- A tax of MxP$ 1.00 per liter of sugary flavored beverages (sodas and soft drinks) is imposed on the sales of the mentioned goods (includes flavored drinks, concentrates, powders, syrups, essences, flavors or extracts).
- Cigarettes and cigars are levied at a rate of 160%.
- Mining Taxes.- a reduced rate of 7.5% shall be applied to profits

arising by the mineral's sale or extraction activities. Deduction is allowed in the income tax law (i.e. investment and others for prospecting an exploration of minerals, also excludes interest expense and inflationary items.

- A 50% additional charge for concession shall apply in from 2014 for those holders who have established and they do not carry out or used its concessions (exploration for two consecutive years. As from the twelfth year), the additional duty will increase by 100 %.
- A 0.5 % rate of the gross income derived from the sale of gold, silver and platinum.

With the last amendments carried out, a certification operates for this tax and is the same for the VAT. In general terms, companies in good legal standing with their tax and customs obligations, may be able to obtain the certification on VAT and IEPS, classified under one of the following categories: "A", "AA", or "AAA".

The certification is a benefit for the Maquila sector and aims grant a 100% tax credit for VAT and IEPS on temporary imports that would start being paid as of January 1st, 2015.

5.5. LOCAL TAXES

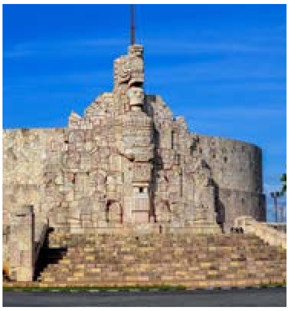
There are several types of local taxes that each member State of the Mexican Republic has established in its domestic legislation, however, the most common taxes are:

5.5.1 Property Tax

Whoever is the owner of the soil and/or the building constructed on it, is obligated to pay property tax on the ratable value of the property or the appraised value, whichever is greater. The tax is calculated based on a table of increasing values.

5.5.2. Tax on Acquisition of Real Estate

Any person (individual or entity) who acquires soil and/or the building constructed on it must pay the tax on acquisition of real state of around 0.5% up to 4.9% on the ratable value of the property, market value, or the appraised value, whichever is greater; the rate of the tax depends of where the property is located.



5.5.3. Payroll Tax

The Individuals and legal entities that make payments of salaries are obligated to pay payroll tax in the State of the Mexican Republic they have located their workers, taxable base includes salaries and wages, overtime working, bonus, incentives, premiums, compensations, commissions, among others; the tax rate is of 0.5 % to 3% depending on the state in which the payment is made. In Mexico City the tax rate is 3%.

▶ 5.6 TAX TREATIES AND TAX EXCHANGE INFORMATION

5.6.1 Tax Treaties to Avoid Double Taxation

In order to increase trade and investment, it is important to create tools or mechanisms which ensure to those investors are not subject to discriminatory taxation in the jurisdictions in which they invest. In a broader sense, tax treaties facilitate trade and investment and can be used to strengthen bilateral relationships between countries.

Mexico is one of the member countries of the Organization for Economic Cooperation and Development (OECD), therefore most of its tax treaties have been negotiated according to the Model Convention of that organization. To this date, 57 of the tax treaties that Mexico has entered into are in force; in addition, Mexico is currently negotiating double tax treaties with various additional countries. The Tax Treaties in force at December 31, 2015 are:

MEXICO TAX TREATY NETWORK				
Australia	Denmark	Indonesia	New Zealand	Spain
Austria	Ecuador	Ireland	Norway	Sweden
Argentina	Estonia	Israel	Panama	Switzerland
Bahrain	Finland	Italy	Peru	Turkey
Barbados	France	Japan	Poland	Ukraine
Belgium	Germany	Korea	Portugal	United Kingdom
Brazil	Greece	Kuwait	Qatar	United States
Canada	Guatemala	Latvia	Romania	Uruguay
Chile	Hong Kong	Lithuania	Russia	Venezuela
China	Hungary	Luxembourg	Singapore	
Colombia	Iceland	Malta	Slovakia	
Czech Republic	India	Netherlands	South Africa	

Source: http://www.sat.gob.mx/informacion_fiscal/normatividad/Paginas/tratados_fiscales.aspx

In the absence of a treaty, Mexico has certain unilateral relief provisions. Residents in Mexico and permanent establishments of foreign residents have the right to credit income tax paid abroad provided, however, that they fulfil certain requirements, e.g. in relation to their attributable income, it has to be an income tax that has been effectively paid abroad by the taxpayer. The foreign tax will be creditable only up to an amount equal to the Mexican income tax that would be triggered by the same income obtained from a foreign wealth source according to the terms of the Income Tax Law.

It is important to point out, that according to the domestic law, it is provided that the benefits from the treaties to avoid double taxation shall only be applicable when, besides evidencing residence for tax purposes in the corresponding country and complying with the terms of the treaty, the nonresident fulfills all other rules of procedure set forth by the law, submits the new informative return regarding its fiscal status and appoints a legal representative.

Further, tax treaties prescribe different reduced rates of dividends, interest and royalties tax withholding, provided the taxpayers comply with specific requirements.

Additionally, so as to eliminate potential barriers to investment, tax treaties aim to prevent tax evasion through reciprocal exchange of information provisions that apply to the tax administrations of the treaty partner countries, as well as specific treaty provisions that limit treaty benefits.

5.6.2. Exchange Information Tax Agreements

Likewise, Mexico has executed specific exchange information tax agreements (see the chart below), and is in the process of negotiating others, to promote international cooperation in tax matters through the exchange of information and to achieve the standard of effective exchange of information for the purposes of the OECD's initiative on harmful tax practices.

EXCHANGE INFORMATION TAX AGREEMENTS			
Aruba	Bermuda	Gibraltar	Samoa
Bahamas	Canada	Isle of Man	Saint Lucia
Bailiwick of Guernsey	Cayman Island	Liechtenstein	
Bailiwick of Jersey	Cook Islands	Netherlands Antilles	
Belize	Costa Rica	United States	

Source: http://www.sat.gob.mx/informacion_fiscal/normatividad/Paginas/tratados_fiscales.aspx

5.6.3 Convention on Mutual Administrative Assistance in Tax Matters

In May, 2010 with entry into force in September 2012 and applicable from January 2013, it was signed this agreement on administrative assistance with regards to taxes such as income tax (IT), value added tax (VAT) and the special tax on production and services (IEPS), which basically consists of:

- Audits upon request, simultaneous and abroad.
- Assistance in tax collection, including precautionary measures.
- Conservation and service of documents

The countries participating in this convention to December 31, 2015 are:

Albina	Colombia	Guatemala	Malta	Singapore
Andorra	Costa Rica	Guernsey	Mexico	Sint Maarten
Anguilla	Croatia	El Salvador	Moldova	Slovak Republic
Argentina	Curacao	Hungary	Monaco	Slovenia
Aruba	Cyprus	Iceland	Montserrat	South Africa
Australia	Czech Republic	India	Morocco	Spain
Austria	Denmark	Indonesia	Netherlands	Sweden
Azerbaijan	Estonia	Ireland	New Zealand	Switzerland
Belgium	Faroe Islands	Isle of Man	Nigeria	Tunisia
Belize	Finland	Italy	Norway	Turkey
Bermuda	France	Japan	Philippines	Turks & Caicos Islands
Brazil	Gabon	Jersey	Poland	Ukraine
British Virgin Islands	Georgia	Kazakhstan	Portugal	United Kingdom
Cameroon	Germany	Korea	Romania	United States
Canada	Ghana	Latvia	Russia	
Cayman Islands	Gibraltar	Liechtenstein	San Marino	
Chile	Greece	Lithuania	Saudi Arabia	
China	Greenland	Luxembourg	Seychelles	

Source: http://www.delitosfinancieros.org/wpcontent/uploads/2015/02/Status_of_Convention_OCDE.pdf

5.6.4. Global Forum on Transparency and Exchange of Information for Tax Purposes (GF)

The Global Forum (GF) monitors that its members fully implement the standards of transparency and exchange of information they have committed to implement. It also works to establish a level playing field, even among countries that have not joined the Global Forum. The GF has 130 members which are.

Albania	China	Hong Kong	Mauritania	Samoa
Andorra	Colombia	Hungary	Mauritius	San Marino
Anguilla	Cook Islands	Iceland	Mexico	Saudi Arabia
Antigua and Barbuda	Costa Rica	India	Monaco	Senegal
Argentina	Cote d'Ivoire	Indonesia	Montserrat	Seychelles
Armenia	Croatia	Ireland	Morocco	Singapore
Aruba	Curacao	Isle of Man	Nauru	Sint Maarten
Australia	Cyprus	Israel	Netherlands	Slovak Republic
Austria	Czech Republic	Italy	New Zealand	Slovenia
Azerbaijan	Denmark	Jamaica	Niger	South Africa
Bahamas	Dominica	Japan	Nigeria	Spain
Bahrain	Dominican Republic	Jersey	Niue	Sweden
Barbados	El Salvador	Kazakhstan	Norway	Switzerland
Belgium	Estonia	Kenya	Pakistan	Tanzania
Belize	Finland	Korea	Panama	Trinidad and Tobago
Bermuda	Former Yugoslav Republic of Macedonia (FYROM)	Kuwait	Papua New Guinea	Tunisia
Botswana	France	Latvia	Peru	Turkey
Brazil	Gabon	Kingdom of Lesotho	Philippines	Turks and Caico Islands
British Virgin Islands	Georgia	Liberia	Poland	Uganda
Brunei Darussalam	Germany	Liechtenstein	Portugal	Ukraine
Bulgaria	Ghana	Lithuania	Qatar	United Arab Emirates
Burkina Faso	Gibraltar	Luxembourg	Romania	United Kingdom
Cameroon	Greece	Macau	Russia	United States
Canada	Grenada	Malaysia	Saint Kitts and nevis	Uruguay
Cayman Islands	Guatemala	Malta	Sain Lucia	Vanuatu
Chile	Guernsey	Marshall Islands	Saint Vincent and the Grenadies	European Union

Source: http://www.oecd.org/tax/transparency/about-the-global-forum/members/

5.6.5. Common Reporting Standard (CRS)

In October, 2014 Mexico signed this multilateral agreement for the automatic exchange of information from financial accounts. The information will be annual from September 2017 for information generated in 2016, in relation to the financial accounts of entities and individuals.

5.7 ANTI-AVOIDANCE RULES

Tax legislation contains specific anti-avoidance rules. Among the most relevant are:

5.7.1 Transfer Pricing

Payments to domestic and foreign related parties would be agreed likewise between independent parties in comparable transactions and properly documented in order for them to be deducted. The tax authorities are empowered to verify that transactions with related parties have been executed in accordance with the arm's length principle, make any necessary adjustments and request: unpaid taxes; restatements for inflation; interest; and fines that may range between 55% and 75% of the unpaid tax (subject to reduction where documentary requirements are met).

Mexico's transfer pricing rules generally follow the OECD transfer pricing guidelines. A transfer pricing study must be supported on the arm's length principle per fiscal year.

5.7.2 Controlled Foreign Companies (CFC)

Companies, individuals and foreigners with permanent establishment in Mexico must pay tax on all earnings from companies or accounts in low-tax jurisdictions. Foreign- source income is deemed to come from a low-tax jurisdiction if it is not subject to taxation abroad or if it is subject to an income tax that is less than 75% of the income tax computed under MITL.

Passive income (i.e. dividends, interest, royalties, capital gains, the sale and the use or enjoyment of immovable property, and those obtained without consideration) derived directly or indirectly by a Mexican resident through a branch, entity or any other legal entity located in a preferential tax regime will be subject to taxation in Mexico in the year in which the income is derived.

In addition, taxpayers earning income from a preferential tax regime must file an annual informative return in February of each year, as must taxpayers generating income from a jurisdiction on the black list and those who conduct transactions through fiscally transparent foreign legal vehicles or entities.

Payments to a CFC generally are subject to a 40% withholding tax.

5.7.3 Thin Capitalization

Interest arising from excess debt from a related party is nondeductible for income tax purposes if the amount of debt exceeds three times the shareholders' equity (i.e. a 3-to-1 debt to equity ratio applies). The thin cap rules are not applicable to taxpayers that obtain a favorable APA (Advanced Price Agreement) from the Tax Authorities, agreeing that transactions are carried out at market prices, and to financial institutions.

5.8 TAX INCENTIVES

5.8.1 Manufacturing, Maquila and Export Services Industry (IMMEX Program)

The Mexican Federal Government published the Decree for the Promotion of the Manufacturing, Maquila and Export Services Industry (herein and after known as IMMEX Decree), this program merges the Export Decree and The Temporary Import Programs to Produce Goods for Export (PITEX).

IMMEX was created with the main purpose to increase the activity of the Mexican export sector with an approach of legal certainty and transparency, reducing logistics and administrative costs through the consolidation of the benefits and facilitates interaction with government authorities to operate under the program.

The IMMEX Program allows the temporary import of goods that are used in an industrial or service process intended to produce, transform or repair foreign goods (including auto parts industry) imported temporarily for its subsequent export or the provision of export services, without covering the payment of the general tax for import, the value added tax and, where appropriate, the countervailing duties.

The company which applies for IMMEX Program, can operate with the following sub-programs:

1. IMMEX Holding Companies Program. - the manufacturing operations of a certified holding company and one or more subsidiaries are included in the same program;

2. IMMEX Industrial Program. - goods are manufactured or transformed for subsequent export through an industrial process;
3. IMMEX Services Program: export goods are serviced or export services are provided, solely to develop those activities established by the Ministry of Economy (SE), following review by the Ministry of Finance and Public Credit (SHCP);
4. IMMEX Shelter Program: one or more foreign companies provide the technology and the production material, without having any direct involvement in the Program, and
5. IMMEX Outsourcing Program: a certified company lacks the facilities to perform production processes itself and performs the manufacturing operations through a third party who it registers in this Program.

The authorization of the Program will be granted under the commitment to have annual sales abroad of at least USD 500,000 or an equivalent amount in Mexican pesos, or invoice exports accounting for at least 10% of its total invoices.

An annual electronic report of the total sales and exports for the immediately preceding fiscal year, no later than the last business day of May, according to the form announced by the Ministry of Economy through the General Rules and Criteria on Foreign Trade, is required.

Other general requirements are to fulfill the provisions of annex 24 of the General Rules and Criteria on Foreign Trade; in that context a specific software must be acquired in order to implement a stock control.

A. IMMEX Benefits

The main benefit of the IMMEX is to defer taxes on goods that are temporarily imported into Mexico and the ability to consolidate import declarations, notwithstanding there are others which implies the following subjects:

- Avoid payment of compensatory quotas which are duties applied to products protected by Mexico's government.
- Reduction in Customs fees (DTA)
- Raw materials, components and parts, associated products, and packing materials, as well as fuel and lubricants used in the production process. These goods may not remain in Mexico for more than 18 months.
- Containers and trailers. Cargo containers and trailer trucks may not remain in Mexico for more than 2 years.
- Possible deferral of the general import duty, and in some cases exemption thereof;
- Avoiding VAT.- Until 2013 one of the major benefits of the IMMEX Program was to avoid the VAT applied on imports, notwithstanding the restatement carried out, it implies that now a 16% VAT shall be paid on imports. However, it could be avoided by obtaining certification from the Mexican tax authorities, which in turn is subject to several requirements.

B. Special Advantageous Tax Regime for IMMEX

Once such program is authorized, companies avoid permanent establishment (PE) risks as long as they comply with transfer pricing legislation, and be deemed to the foreign principal conducting operations in Mexico through the enterprise with the mentioned program, meanwhile such foreign principal be resident in a country which Mexico has a double tax treaty in force.

Also, companies must comply with the transfer pricing legislation determining on arm's length level of profitability and declare a "Safe Harbor" that consists in general of reporting a taxable income of at least the higher of the following values:

1. 6.9% of those assets used in the activity (inventories and fixed assets owned by the foreign related party are included),
2. 6.5% of total operating costs and expenses of the IMMEX Maquiladora.

Return of operative assets, including the net book value of machinery and equipment owned by the foreign principal, adjusting it to recognize that the financial activities (and associated risks) for the procurement of such machinery and equipment are not carried out by the Maquiladora.

Regarding the last tax amendment which took place on January, 2014, the Government published the Resolution of Modifications to the General Rules, Mexican Income Tax Law (LISR as per its Spanish acronym) and Valued Added Tax Law (LIVA as per its Spanish acronym), which contains a modification regarding the following themes:

- **Value Added Tax (VAT).**- Payment of the tax at the time of importation for temporary imports. This rule implies obtaining a certification in order to avoid VAT effects on temporary imports.
- **Income Tax (IT)**.- A new definition of the "Maquila Process" was amended in the Mexican Income Tax Law, the essence thereof consisted in, according to the, IMMEX Decree definition, in order to obtain the Income tax benefits described above, the company with the IMMEX Program must nevertheless comply with:
- **Concept limits.**- This was inserted to limit the export of manufacturing services and to restrict the ability of a maquiladora to sell or distribute the products manufactured that it supposed to return as exportation directly in Mexico.
- **Permanent establishment rule.**- To avoid a PE exposure, income from the IMMEX Program must be derived exclusively from the export activities concerning to manufacturing process services.
- **Miscellaneous rules.**- Once the income scope has been clarified as to be derived exclusively from the export of maquila services when it is derived from the rendering of maquila services (or activities related to such services) to foreign related parties.
- **Foreign resident rule.**- Goods provided by the foreign principal to enact the manufacturing process under Manufacturing Agreement, have to be temporarily imported and returned abroad, or transferred by virtual operations.
- **Raw materials rule**.- The manufacturer must use in his process such materials owned by third foreign parties with whom he enjoys a commercial relationship, nevertheless, if he were

to include goods that have been imported on a definitive basis, these goods shall be exported or returned abroad together with the temporarily imported goods.

- **Foreign fixed assets rule.**- 30% of fixed assets used in the process of transformation must be owned by the foreign principal and temporarily imported. Such fixed assets cannot be owned previously by the Maquila Company or a Mexican related company. The IMMEX Company may also process products with fixed assets owned by a third foreign entity with whom he enjoys a commercial relationship, with the foreign principal with whom the holder of the Program has executed a Manufacturing Agreement, or with its own fixed assets or those leased with non-related parties.

C. Mexican Automotive Industry

The Mexican industry of manufacturing has increased continuously, the Automotive Industry, not being an exemption and to be considered as the most sophisticated process and manufacturing sector with more than 2.4 million vehicles shipped in the last year.

The maquila process in the automotive industry is perhaps the most dynamic industry in the process services sector, compounding the suppliers which are companies engaged to provide services to manufacture car parts involved in the process of vehicle construction. These suppliers are allowed to both carry out local commerce and export finished goods, mainly to the United States (U.S.) and abroad under Mexico's IMMEX program, taking full advantage of the taxation, fiscal and other incentives offered to them.

A significant information is that almost 80% of the value of Mexican exports including vehicles and car parts went to the U.S. The rest of the exports were divided among over 100 countries. Mexico is the main supplier of auto parts to the U.S. .

a. Automotive Decree

The Decree was published in December 11 of 1989 and contains as its main objective, to place productive investments in national territory, provided that they include:

- Expansion or construction of facilities.
- Training and job generation.
- Investment in R&D from businesses in the sector.

The decree has been the main cause of the largest investment in our country, many companies such as Volkswagen, Fiat/Chrysler, Pirelli, Porsche and others have carried out millionaire investments to develop the vehicle business sector as well as doing business with third party suppliers in order to acquire the necessary goods to complete their production process chains.

Source http://embamex.sre.gob.mx.

b. Other Benefits:

The inclusion of manufacturing companies under the Customs and Manufacturing Law under the Sectorial Promotion Program (PROSEC) for the automotive and car parts industry to import their materials with preferential tax arrangements or exemptions with the objective of maintaining their competitiveness.

Also with IMMEX Program the procedures and requirements for companies which have a structured business plan, allowing for the import of goods and services used in industrial processes for the development, transformation (modification) or repair of merchandise imported from abroad.

5.8.2 Real Estate Investment Trust (FIBRAS)

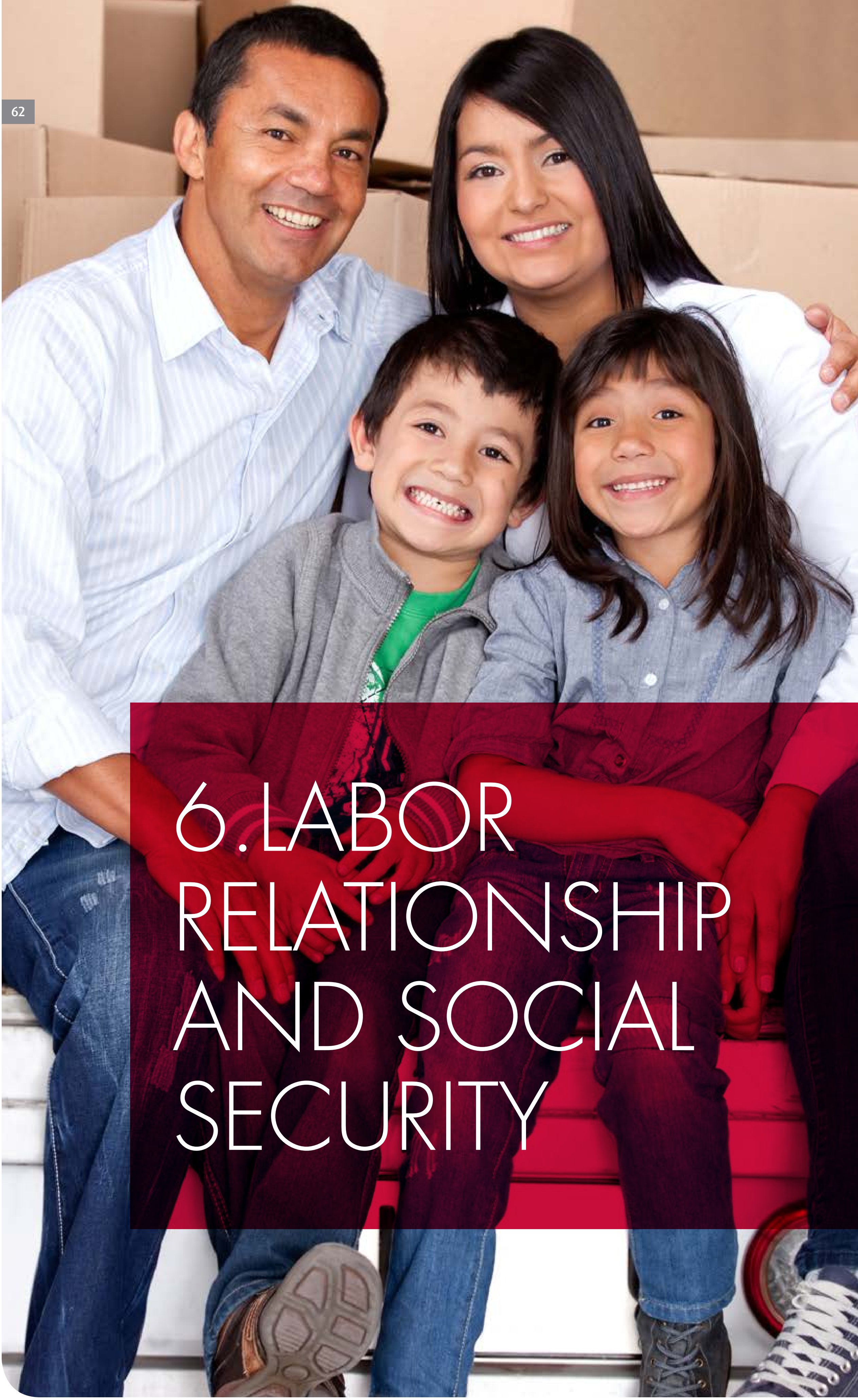
There is also a benefit for Real Estate Trusts engaged in the acquisition or construction of buildings allocated for lease or purchase of the right to receive income from the lease of such property.

The property cannot be alienated within 4 years from the termination of the construction or acquisition in order to defer the payment of income tax until the sale of participation certificates.

5.8.3 Energy Sector

According to the 2016 tax reform, in order to optimize the industry, the 10-year limitation was removed for investment in risk capital trusts in the energy sector.

An investment account in renewable energy is created in order to enhance the deduction of 100% of fixed assets allocated to this activity.



6. LABOR RELATIONSHIP AND SOCIAL SECURITY

LABOR RELATIONSHIP AND SOCIAL SECURITY

Labor issues in Mexico are governed by the Federal Labor Law (LFT as per Spanish acronym) and the Social Security Law (LSS as per its Spanish acronym), which set forth the rules for labor relations, labor unions and labor courts, according to the social and economic rights for workers provided by Mexico's constitution of 1917.

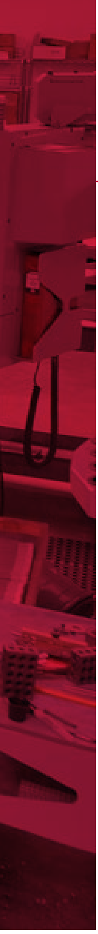
As we will comment later, recently, the Mexican government implemented some changes in labor law to give employers more flexibility in hiring and firing workers and to improve the labor system.

Below you will find a summary report of Labor relationship considerations in Mexico.

6.1 EMPLOYER OBLIGATIONS UNDER FEDERAL LABOR LAW

There is a requirement under LFT to issue a locally compliant labor agreement to the employee. The labor agreement will include personal details of the employee and the activities and responsibilities of their position. It will also include reference to the employee's minimum entitlement and benefits under LFT. The minimum details that would need to be included in an employment agreement include:

1. Name, nationality, age, sex, marital status and domicile of the employee.
2. Duration of the labor relationship (indefinite or fixed term. Fixed term labor agreements are limited to certain circumstances prescribed under the LFT).
3. Description of the services to be rendered by the employee.
4. Place where the employee will carry out his activities.
5. Work schedule.
6. Amount of the employee's wages and terms of payment (it is customary in Mexico to pay on a fortnightly basis).



7. Day and place of payment of the wage.
8. A clause stating that the employee agrees to take the training courses established by the employer, other working conditions, such as days of rest, vacations etc.

6.2 MANDATORY BENEFITS

6.2.1 Social Security

Employees in Mexico are covered by the LSS and the Mexican Social Security Institute (IMSS) is the responsible for the management of mandatory social security benefits and the collection of the taxes.

The LSS first enacted on January 31, 1942, has undergone a series of Amendments throughout the years. In accordance with the LSS, all employers must register their employees before the IMSS.

Such registration provides the employee with the following benefits:

1. Work related risks;
2. Health and maternity insurance;
3. Disability, pension and life insurance
4. Retirement, old age pension and old age unemployment insurance;
5. Child care and social benefits.

Upon creation of a working relationship, the employee automatically becomes entitled to the various social security benefits, which are funded by taxes paid by both employers and employees, depending on the risk factor of the company.

Unless the employer has not complied with its registration and payment obligations, the employer is released from any liability for work-related accidents or illnesses. If the employer does not comply with its registration and payment obligations, the IMSS will nevertheless provide the benefit to the employee but it will revert the actual cost thereof to the employer and will impose penalties. Social Security benefits are provided at the IMSS facilities located throughout Mexico.

Social security taxes are calculated regarding the employee's wages over an integrated base (including fringe benefits and certain payments) with a maximum daily wage top equivalent to 25 times the general minimum daily wage in force at the Federal District (Mexico City), equivalent to a top yearly wage (for 2015 the minimum wage is MxP$70.10 per day). Such integrated wage includes all monetary and in-kind compensations, as well as benefits received by the employee, excluding only the following:

- Work tools and clothing;
- Savings funds, provided they include matching taxes by the employer and the employee;
- Taxes paid by the employers for social or union purposes;
- Taxes made by the employer to the SAR for workers housing;

- Profit sharing paid to the employees;
- Food and shelter, provided the employee pays a portion thereof;
- Food baskets;
- Attendance bonuses; and
- Overtime pay, unless such service is agreed upon on a permanent basis.

In this regard, if the employee receives from the employer housing or meal allowance, his wage will be increased by 25% and if he receives both it will increase by 50%. If the meal allowance does not cover 3 meals, for each meal received, the wage will increased by 8.33%.

The employer's rate of the tax is approximately 30% of the wage.

As mentioned before, according to the LSS, there is a maximum and minimum limit to determine the base wage. This means that although the employee earns more than the maximum limit set, or less than the lower limit, the employer must pay the employee- employer taxes within the said limit, and the IMSS is required to pay benefits within this range. The insured employee shall be registered by the employer on the base of the wage earned at the time of registration, taking into account that a maximum limit is equivalent to 20 times the daily minimum wage in force in the Federal District (Mexico City) the minimum being the limit of a minimum wage. In the case of Life and Disability Insurance, and old age, the limit up is 25 times the daily minimum wage current in the Federal District (Mexico City).

6.2.2 Employee Profit Sharing (PTU)

Starting from the second year of operations, all employers must distribute among their employees an amount equal to ten percent (10%) of the employer's pretax profit within 60 days after the employer is required to file its year-end income tax return. Fifty percent (50%) of such amount is to be distributed in proportion to the number of days worked by each employee during the year, and the remainder according to the wages of each employee. Certain managerial employees are not entitled to PTU

.

6.2.3 Christmas Bonus

All employers must pay their employees a year-end bonus equal to at least fifteen days' wages, payable before December 20th of every year.

6.2.4 Paid Vacations

An employee required to work on any of these vacations must be paid as working on a holiday, a penalty equivalent to three times his normal wage, including his/her regular wage.

Employees with more than one year of seniority are entitled to six days of paid vacation. Such six-day period is increased by two days per subsequent year of seniority for up to twelve days. After the fourth year, the minimum paid vacation is increased by two days every five years thereafter, as follows:

YEARS OF SERVICE	DAYS OF VACATION	SENIORITY PREMIUM
1	6	25%
2	8	25%
3	10	25%
4	12	25%
5-9	14	25%
10-14	16	25%
15-19	18	25%

6.2.5 Vacation Bonus

According to the LFT, this bonus shall not be less than 25% of the salaries payable to the employees during their vacation period.

6.2.6 Employer Housing Tax

The LFT requires employers to pay an amount equal to five percent (5%) of each employee's wages to the Housing Fund (INFONAVIT). Employers must deposit these taxes in a special account at a local bank.

6.2.7 Retirement Saving Funds (SAR)

As well as the taxes made for the IMSS and INFONAVIT, the employers must contribute an amount equivalent to 2% of the payroll to an employee retirement saving fund (SAR).

6.2.8 Seniority Bonus

Seniority (Antigüedad) as outlined in the LFT, says that the employees will have to be rewarded for Seniority, and a Seniority Bonus should be paid to them, corresponding to twelve days of wage (maximum two minimum daily salaries for each day) in the following cases:

1. If the employee has more than fifteen years of service and decides to end the labor relationship, and
2. If the labor relationship is terminated by the employer.

6.3 LIMITED DEDUCTION ON FRINGE BENEFITS

As a tax reform, from 2014 onwards, of the remuneration payments made to employees that are partially exempt, only 47%-53% of the payments shall be considered as exempt for the employee -for social welfare items, saving funds, final payment to employees, annual bonuses and overtime- will be deductible.

6.4 EMPLOYER MANDATORY WITHHOLDING

6.4.1 Social Security Taxes

Employees as well as the employers have an obligation to pay taxes on a monthly basis to the IMSS. The aforementioned notwithstanding, the employer has the legal obligation to withhold and remit the taxes of his employees to the Tax Authorities.

6.4.2 Withholding Wages

For income tax purposes, the wages (employment incomes) include cash, goods, credit, certain, services and any other kind of benefits

provided by the employer. Any Income related to employment, including the mandatory annual profit sharing distributions made to employees, as well as income derived as a consequence of termination of employment, will be subject to taxation.

Nevertheless, under certain requirements, income tax shall not be paid on the following incomes:

- Compensation other than the minimum wage
- Indemnities for risks or illness
- Retirement and pensions provided for in the LSS
- Medical and funeral expenses granted generally under the laws or under labor contracts.
- Social Security Taxes
- Fringe Benefits (Disbursements for satisfaction of present or future contingencies or needs of employees and partners or members of cooperative associations; the granting of benefits intended for the physical, social, financial or cultural well-being that allow for improvements in the quality of their life and that of their families). Among other requirements, the exemption applicable to social prevision incomes shall be limited when the sum of the salaries plus that of the exemption exceeds the equivalent of MxP $165,524.35. When said sum exceeds said amount, the income exempt from the tax shall be an amount equal to MxP $23,659.30.
- INFONAVIT/Housing taxes
- Savings funds (SAR)
- Severance compensations
- Christmas Bonus, vacation bonus, Sunday premiums
- Collection of insured amounts
- Inheritance or legacy
- Donations
- Prizes
- Indemnities for damages
- Alimony or child support
- Amounts withdrawn and transfers
- Transferred taxes

The employer must have made a true calculation at the end of the year for each of its employees who will not file an annual tax return, in order to adjust the actual tax withholding to equal the tax liability on salaries on an annual basis. If the employee's compensation is more than MxP $400,000.00, the employee shall file an annual tax return.

Finally, employer will be required yearly to withhold personal income tax on the employee's taxable wage at variable rates up to 35%, and remit this to the Tax Authorities on a monthly basis.

▶ 6.5 LABOR REFORMS

On December 1st, 2013, the LFT was amended; amongst the most important amendments are the following:

- New employment testing and training periods (temporary employment)
- Outsourcing regulation

A. New employement testing and training periods (temporary employment)

Before the Labor Reforms, any new employment relationship entitled the employee to certain rights, such as no termination without just cause.

Employments testing periods, or temporary employment, are now provided under the LFT for up to 30 days, which can be extended to 180 days for managerial positions, upon which such employees may be terminated by the employer.

Employment training periods are also possible for up to 3 months (6 months for managerial positions), after which employees may be terminated without employer responsibility. Both the testing and training periods are for new employees and neither apply to promotions or job changes.

B. Outsourcing Regulation

Prior to labor law amendments, companies could subcontract their employees from third parties, who would provide the employee benefits and the company would not be considered the employer.

The labor amendment defines "Outsourcing" as a contract pursuant to which an employer (called "contractor" or "subcontractor") performs work or renders services through employees under its control in favor of another entity or person who 1) Benefits from the contracted services, 2) Determines the activities to be performed by such employees and 3) Supervises/monitors the carrying out of such services or the execution of the contracted work.

In this sense, the subcontracting regime is modified and limited to work covering all of the activities in the workplace, being specialized in nature and not covering similar tasks to those rendered by the rest of the company's employees. In others words, according to the reform, companies are allowed to outsource only specific or ancillary and specialized tasks. The outsourced services shall not be the same or similar to the main services rendered by employees of the company doing the outsourcing. If the three aforementioned factors are not fulfilled, the company may be subject to employer obligations, including mandatory benefits such as the PTU and social security taxes described above, in addition to fines.

The Reform requires outsourcing agreements to be in writing and that the party benefitting from the services to be performed verify the contractor's credit worthiness and its compliance with social security obligations. Failure to comply with these verification requirements can result in direct liability to the party outsourcing the services, which shall be deemed to be the employer, jointly liable with the contractor for damages to employees.

The Reform expressly prohibits the outsourcing of employees if the purpose of such outsourcing is to avoid labor obligations or to evade the payment of legal benefits (e.g., social security obligations and PTU). Any breach to this prohibition may result in monetary sanctions that may range from 250 to 5,000 times the applicable minimum wage at the time of the breach.

6.6 EXPATRIATES

An expatriate is a non-resident of Mexico (his/her home is outside of Mexico) who is assigned to work in Mexico for a period of time. International assignment of an employee to another country is usually started through a "Secondment agreement" between the home country employer and the host country employer.

Any foreigner who comes to Mexico in order to work is protected by the Federal labor Law (LFT as per its Spanish acronym) and is subject to be registered before the Mexican Social Security Institute (IMSS).

An important issue is the migratory situation because the foreigner requires a legal status, and in order to carry out remunerative activities they need a work VISA (Temporary residency for 1 year) and that process can take about one and a half months.

If the Immigration Authorities perform an inspection and detect a foreigner without a work VISA it can arrest and deport him, punish him with an economic sanction and forbid his return to Mexico for a period ranging from 1- 10 years.

Finally, regarding fiscal issues, the payment of the taxes will depend on whether the foreigner is resident in Mexico or abroad for tax purposes and the time spent in performance of his activities in the country.

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