



cutting through complexity

Doing business in Mexico

An Indirect Tax Perspective

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Discussion points

- **The rise of Indirect Taxes**
- **Results of our KPMG Survey**
- **Mexico's main industries**
- **A deep dive into Mexico's Indirect Taxes**
- **Opportunities**
 - **Maquilas**
- **Do's and Don'ts when doing business in Mexico**

Achieving World Class Performance - The rise of Indirect Taxes

Most CFO's focus on CT and not VAT when making decisions

The biggest companies are taking ownership of indirect tax and balancing it with other risks

Indirect taxes are increasing in importance

Risk management is lagging behind

Opportunities to add value are being missed

companies are not focused on managing VAT risk rather than value

companies are not embedded tax across Order to Cash/Purchase to Pay

Results of a recent KPMG International survey of attitudes to indirect taxes in over 500 companies in the world

Errors in complying with global VAT/GST regulations are considered by respondents to be one of the major global tax risk

Increased complexity of legislation

The increasing volume and complexity of transactions in overseas jurisdictions

The lack of comfort with internal processes and controls

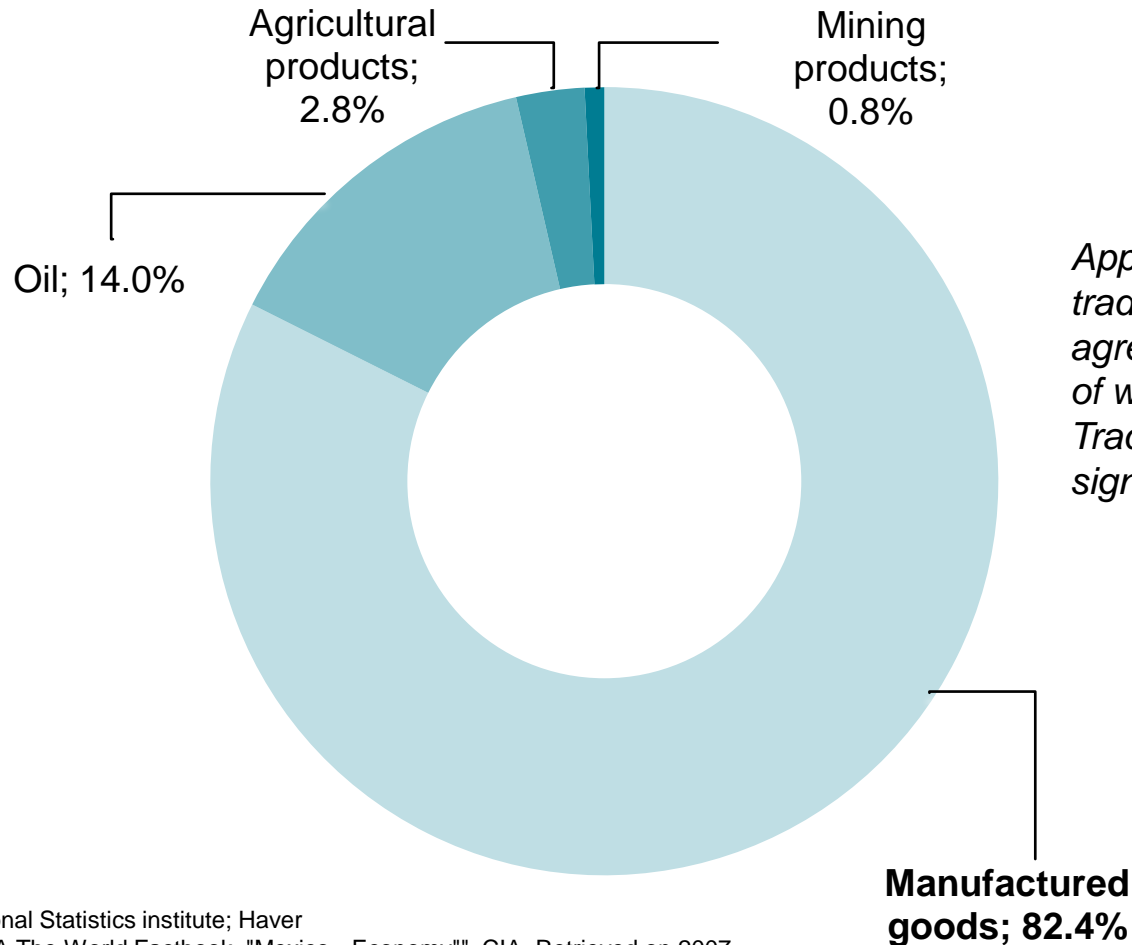
Main business priorities over the next five years

Training to raise the VAT/GST awareness of employees

Use of new tax technologies to improve compliance with regulations!

Mexico's main industries – Principal exports

An important factor that is crucial to the success of industries is importing and exporting goods and services. Manufactured goods represents more than 80% of Mexico's industry. US is Mexico's main export market for manufactured goods.



*Approximately 90% of Mexican trade has been put under free trade agreements with over 40 countries, of which the North American Free Trade Agreement remains the most significant.**

Source: National Statistics institute; Haver

* Source: "CIA The World Factbook, "Mexico - Economy"". CIA. Retrieved on 2007

A deep dive into Mexico's Indirect Taxes (I)



VAT in Mexico is a federal tax

Subject to Mexican VAT are;

- Sale of goods
- Rendering of independent services
- Granting of temporary use or enjoyment of goods
- Import of goods or services

Standard VAT rate is 16%, 11% frontier region

0 % VAT rate for certain goods

- non industrialized animals and vegetables
- certain patent medicines and products intended for food
- Export of goods

VAT must be calculated on a cash flow basis (tax point)

A deep dive into Mexico's Indirect Taxes (II)

Main VAT formal obligations

"Formal but flexible tax system"



Taxpayers must comply with the following obligations;

- Monthly VAT Return and submitted through the tax authorities' web page
- Withhold VAT when applicable (leasing or purchase of goods to foreign resident)
- Keeping accounting records and a separate control of exempt and taxable operations
- Issuance of invoices complying with the formal requirements established in the Federal Fiscal Code

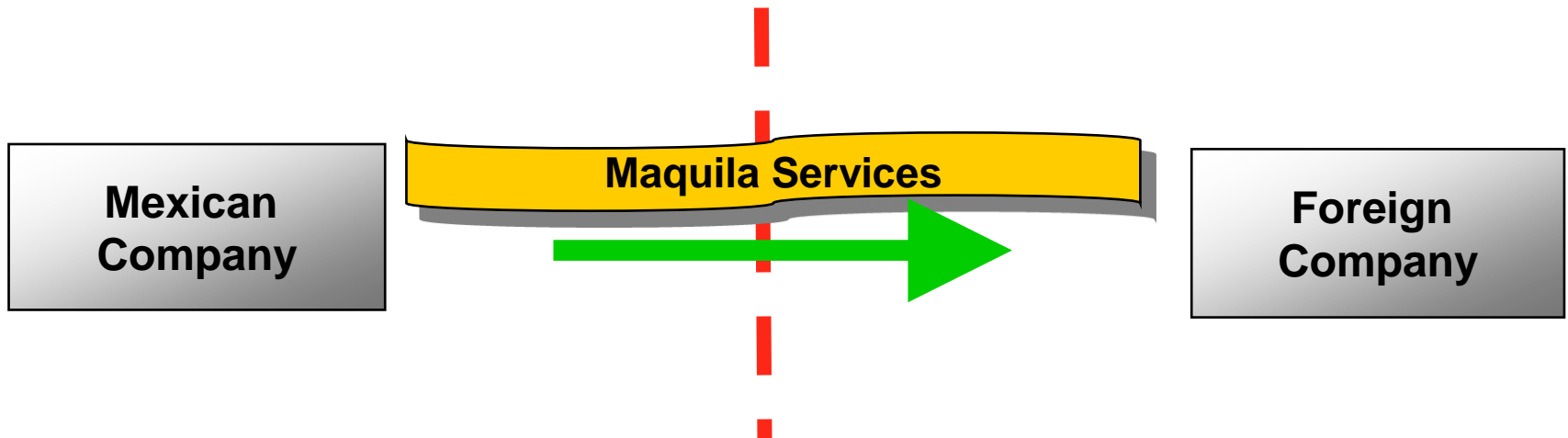
Special IMMEX – Maquila regime

*Maquilas or Free Trade Zones are a **customs procedure**. Goods and / or services are freely available **without payment of customs duties and import taxes**. It takes place in a designated area under control, supervision and monitoring of the Authority.*



IMMEX Decree

As a general rule, exports of goods and services are subject to 0%, particularly IMMEX services:



- 0% value added tax rate on export of services

Certain opportunities and conditions of Maquilas

The import of machinery and tools are **free of VAT** into a Maquiladora. Also **free of VAT** is when these are transferred to another Maquiladora

Process goods should be **returned abroad within a 9 -18 months** timeframe

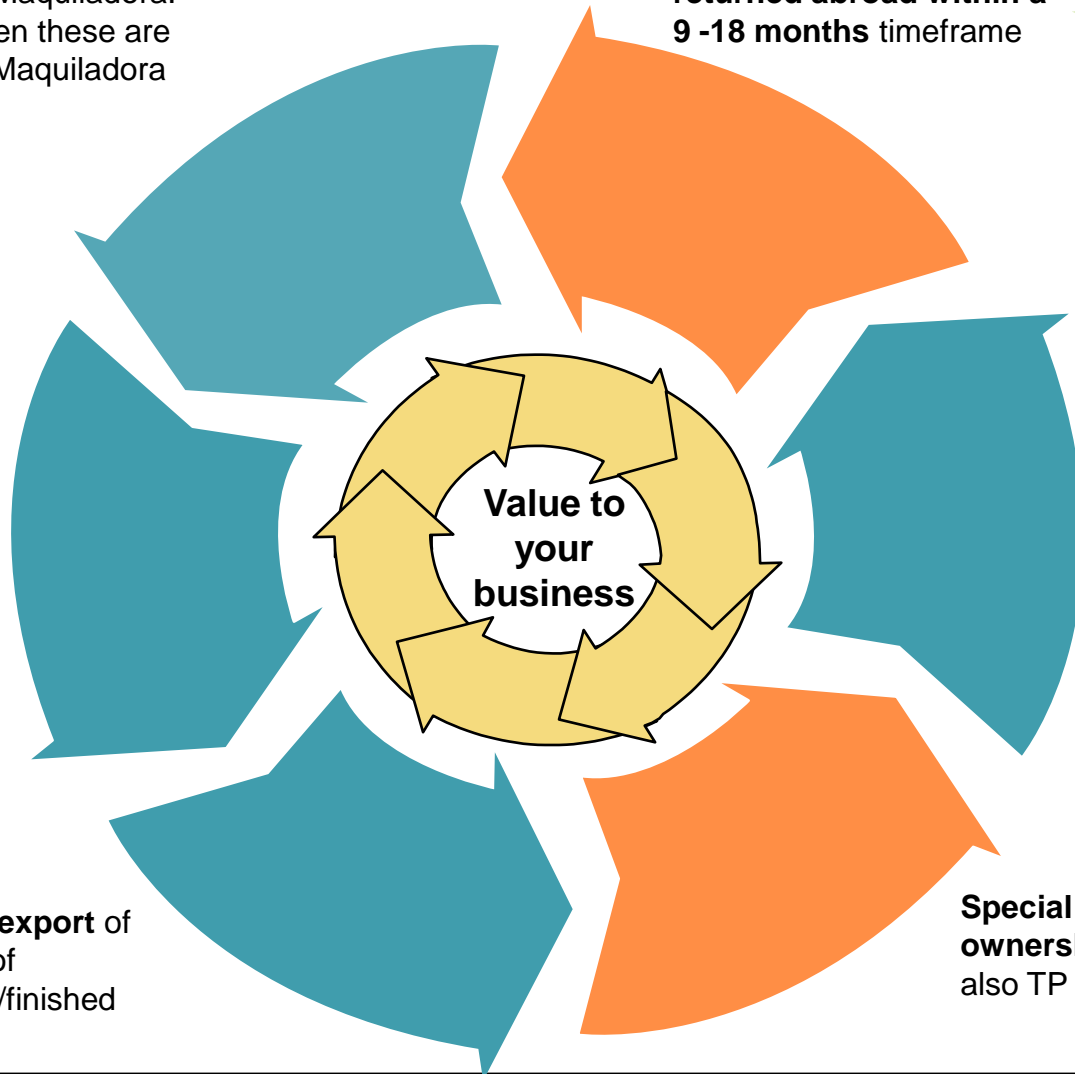


High-speed VAT refund applicable to Maquiladoras if they generate VAT credits

The import of **raw materials, parts and components** is **free** of import duties and **VAT**

0% VAT on export of the service of transformed/finished products

Special requirements on ownership of assets and also TP conditions



Do's and Don'ts



When in Mexico

Do's

- Pay attention to the **requirements about electronic reporting** and electronic invoicing
- Take into account the **formalism on the relationships** (very hierarchical)
- **Respect the professional space** of local in-house tax people (sense of ownership)
- Respect the **categories/hierarchies** on the **communications**
- **Reciprocity** is a must when doing business in Mexico
- In general, the Mexican business people prefers to do business within a social context, e.g. breakfast, lunch
- Lately and although Mexican people do speak English, it is preferred when **doing business in Mexico** that the person **speaks Spanish**

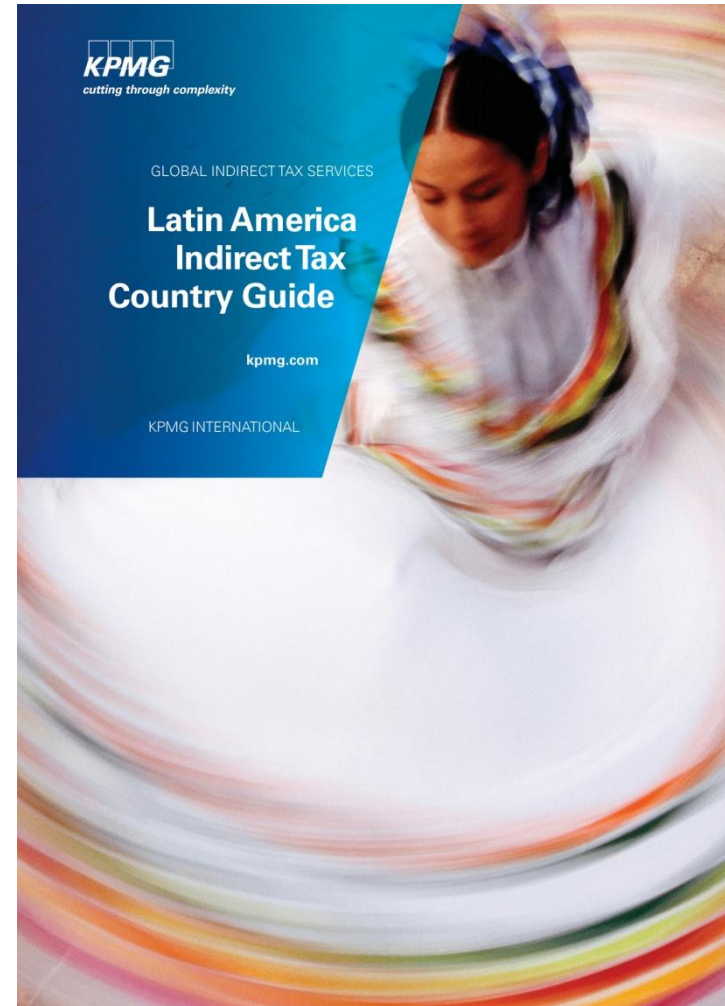
Don'ts

- Being **excessively demanding** and direct
- Do not get impatient when a deadline has to be rescheduled. **Be a bit flexible** regarding meeting of deadlines

2010



2011





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Thank you