



MERGERS AND ACQUISITIONS

Mexico

Taxation of Cross-Border
Mergers and Acquisitions

2010 Edition

TAX

Mexico

Introduction

Foreign investment in Mexico by multinationals has substantially increased over the past decade, thanks partly to the extensive network of tax and trade agreements concluded, particularly in recent years, with Mexico's most important financial and trading partners, including the United States (U.S.), Canada, some central and South American countries, the European Union (EU), and some Asian countries. The main purposes of these agreements are the elimination of double taxation on income and capital, and custom duties in international trade.

Domestic regulations on foreign investment and on the transfer of technology have also been relaxed.

For all these reasons, new investment by multinationals expanding their operations in Mexico is expected to continue to grow strongly over the next few years.

The following are the main issues that should be considered by companies seeking tax-efficient structures in Mexico.

Recent Developments

New Business Flat Tax (IETU)

Starting January 2008, the new business flat tax (IETU by its acronym in Spanish) has been in force. It is an incremental minimum tax imposed on individuals, legal entities, and foreign residents with permanent establishments in Mexico. This tax is levied on a cash-flow basis at a 17.5-percent rate (17 percent for 2009). Taxpayers are obliged to pay the greater of the IETU or the corporate income tax and are also required to make monthly estimated tax payments and file annual tax returns. The new tax replaced the asset tax and is imposed on all revenues obtained from the sale of goods, rendering of services, and granting the temporary use and enjoyment of property.

Generally, royalties between related parties and interests payments are not subject to IETU and, consequently, the related deductions cannot be used to reduce the IETU tax basis. Also, deductions of wages, salaries and fringe benefits related to employment are

not deductible for IETU purposes; however such items are partially deductible through a credit.

It is important to point out that foreign residents that perform operations in Mexico are not subject to IETU (that is, royalty payments, interest payments, etc.).

2010 Tax Reform

At the time of writing, significant amendments to the existing legislation have been put forward in the 2010 Tax Reform. In particular, the current draft legislation includes:

- The income tax rate is increased to 30 percent for 2010 to 2012, with a transition so that it returns to 28 percent in 2014. For 2013 the tax rate will be 29 percent.
- The scheme of neutrality in tax consolidation is changed to one of deferral, with the obligation to pay the deferred tax after a period of five years. Consequently, the income tax deferred at 31 December 2004 should be paid commencing June 2010.
- Commencing 2010, the general tax rate will increase from 15 percent to 16 percent. In the border zone the tax rate will increase from 10 percent to 11 percent.

Asset Purchase or Share Purchase

An acquisition in Mexico can take the form of an asset deal or a share deal.

According to the Mexican tax rules, vendor and purchaser are jointly liable in the acquisition of a business for liabilities incurred by the business during the five years leading up to the acquisition. Mexican laws do not define the term a business, but the criteria used by the tax authorities is that sale of a business occurs when a company sells or otherwise disposes of the assets and liabilities that were used to develop the core business of a company. Another indication that that a transfer of a business has occurred is the simultaneous transfer of employees to the company acquiring the assets and liabilities. This joint liability is limited to the purchase price paid for the assets.

If the acquisition of assets is properly planned and reviewed by tax and legal advisors, the transfer of a potential tax risk can be mitigated. In a purchase of shares, on the other hand, the historical liabilities remain with the company acquired. Some of the tax considerations relevant to each method are discussed later in the chapter and their respective advantages are included at the end of the chapter.

Purchase of Assets

An acquisition of assets increases the cost of the transaction, because the transaction is normally subject to value-added tax (VAT). When the purchaser is a Mexican resident, however, this additional cost may be refunded. In addition tax for the transfer of real estate property may apply. From a tax prospective, however, the acquisition of assets preserves the tax basis for the purchaser and, as consequence, may reduce the tax basis for corporate income tax and flat tax.

Purchase Price

For tax purposes, it will be necessary to apportion the total consideration among the assets acquired. It is generally advisable for the purchase agreement to specify the allocation, which will normally be acceptable for tax purposes provided it is commercially justifiable. The Mexican rules are very formal and, in addition to the contract, require proper invoices supporting the acquisition of assets and detailing the amount of the VAT triggered in the acquisition.

Goodwill

The goodwill purchased from a third party is not deductible for tax purposes in Mexico. According to the criteria used by the tax authorities, goodwill is the excess paid for the assets over their real value, nominal value, or fair market value.

Depreciation

For tax purposes depreciation of acquired tangible and intangible assets must employ the straight-line depreciation method at the maximum rates specified for each asset in the Mexican Income Tax Law. Among others, applicable rates are as follows:

- 5 percent for constructions
- 10 percent for office furniture and equipment
- 25 percent for automobiles, buses, trucks, tractors and trailers

- 30 percent for personal desktop or portable computers, servers, printers, optic readers, digitalizers, and computer network concentrators

There are special rules for cars and certain intangible assets, such as royalties. Accelerated allowances are also available as long as the taxpayers comply with certain requirements.

Tax Attributes

In the case of an assets deal in Mexico, the tax attributes of the company (that is, tax losses or tax credits) would not be transferred to the acquirer of the assets.

Value-Added Tax (VAT)

As previously mentioned, the purchase of assets (goods) would be subject to VAT. Commencing 2010, the VAT rate is 16 percent.

Purchase of Shares

The purchase of a target company's shares does not represent a deduction for corporate income tax or flat tax. Furthermore, in a share deal no VAT is applicable.

Tax Indemnities and Warranties

In a share acquisition, the purchaser is taking over the target company together with all related liabilities, including contingent liabilities. The purchaser will, therefore, normally require more extensive indemnities and warranties than in the case of an asset acquisition. The alternative approach, to inject the seller's business into a newly-formed subsidiary, does not work in most cases, because of the tax joint liability for the transfer of a business in Mexican Law.

A full due diligence investigation is essential in a share deal. When significant sums are identified as potential tax contingencies as a result of the due diligence exercise, it is very common for the purchaser to require the establishment of an escrow amount from which the seller can draw on an agreed schedule.

The Mexican tax authority is entitled to examine and assess additional taxes for any year, at any time within a five-year period commencing on the day following the day taxes were due or tax returns were filed, including amended returns. If the taxpayer has deducted tax losses from taxable profits, the tax authority is entitled to examine and assess the information relating to such tax losses, regardless of how the tax losses were generated up to five years after the amortization of the loss.

Tax Losses

After a change in control, the losses of an entity acquired can only be used against income from the same line of business that generated the losses. The carry-forward period is 10 years.

Crystallization of Tax Charges

Since tax authorities may claim joint liability of the purchaser for unpaid taxes in the last five years, it is essential to obtain an appropriate indemnity from the seller in addition to the escrow amount.

Pre-Sale Dividend

In certain circumstances, the seller may prefer to realize part of the value of his/her investment as income by means of a pre-sale dividend. This is very common in Mexico because such pre-sale dividends are not usually subject to corporate income tax if the company retains sufficient funds in its post-tax profits account (CUFIN, by its Spanish acronym in). A case-by-case analysis must be carried out when the dividend payment exceeds the amount of the CUFIN. No withholding taxes (WHT) apply on dividend payments to foreign entities.

Choice of Acquisition Vehicle

There are several potential acquisition vehicles available to a foreign purchaser and tax factors will often influence the choice. There is no capital duty in Mexico.

Local Holding Company

A Mexican holding company is typically used where the purchaser wishes to carry out an asset deal. On the other hand, in a shares deal, the recent changes that have introduced the flat tax which does not allow interest deduction and the limitations to the consolidation regime, have reduced significantly the ability to push down debt to the Mexican holding vehicle.

Foreign Parent Company

A foreign parent company is commonly used in a share deal. International corporations completing a stock or an asset purchase through a foreign vehicle should evaluate:

- Participation exemption regulations in foreign countries
- Interest deduction in foreign countries
- Goodwill deduction
- Passive income accrual

- Controlled foreign corporation rules (CFC rules)
- Entity classification for foreign tax purposes
- Exit strategies
- Debt push-down to Mexico

Exit strategies that exempt Mexican corporate income tax withholding on any capital gain derived from the transfer of Mexican operations include:

- Completing the transaction with a subsidiary in a country with which Mexico has signed a tax treaty providing exemption from capital gains on the sale of shares (such as France and Italy).
- Setting up an intermediate holding company in a foreign country that can be sold, so that no transfer of Mexican shares occurs. It is important to note that, in this case, the Mexican shares should not derive, directly or indirectly, more than 50 percent of their value from real property located in Mexico. If they do, the transfer is taxable in Mexico, unless the Belgium or Luxembourg treaty applies.

Non-Resident Intermediate Holding Company

If the foreign country taxes capital gains and dividends received from overseas, an intermediate holding company resident in another territory could be used to defer this tax and perhaps take advantage of a more favorable tax treaty with Mexico. However, the purchaser should be aware that many Mexico treaties contain treaty shopping provisions that may restrict the ability to structure a deal in a way designed solely to obtain tax benefits.

Local Branch

A branch it is not used as a vehicle of acquisition in Mexico due to several tax inefficiencies.

Joint Ventures

A joint venture may be used for the acquisition. In Mexico the joint venture available is only at corporate level, with the joint venture partners holding shares in a Mexican company. Mexican rules do not distinguish in tax treatment between a joint venture vehicle and a Mexican holding company.

Choice of Acquisition Funding

From 2005, the Mexican tax law applies thin-capitalization rules such that interest paid to foreign related parties that results in indebtedness exceeding a ratio of 3:1 to their stockholders' equity, will be considered as non-deductible for corporate income tax.

Furthermore, for flat tax calculations, no interest deduction is allowed in any case.

Foreign investment may be financed with debt or equity at the investor's discretion, but some of the issues to be considered when evaluating the form of the investment are set out below.

Debt

The most important benefit of financing through debt instead equity is the interest deductibility for corporate income tax purposes in Mexico. Nevertheless, the introduction of the flat tax has limited the use of debt for acquisitions.

Debt considerations for corporate income tax include the following:

- Interest payments made on back-to-back loans, as defined under Mexican tax law, may be treated as dividend distributions.
- The Mexican borrower may be subject to inflationary income resulting from the loss on the purchase value, or the Mexican currency.
- The Mexican borrower may deduct any foreign exchange losses on the principal and interest components.
- Transfer pricing rules apply. Any interest above arm's length interest in inter-company transactions is treated as a dividend distribution and is non-deductible.

Deductibility of Interest

There are thin-capitalization rules in Mexico that require taxpayers to maintain a debt-to-equity ratio of 3:1. The ratio includes all interest-bearing debt. The equity would be determined according to Mexican GAAP and would exclude the income or loss of the same year (such as the equity is calculated as the sum of accounting capital at the beginning and end of the relevant year divided by two). Interest paid in excess of the ratio would be disallowed for income tax purposes.

When such interest is paid to a lender abroad, such non-deductible interest would still be subject to WHT.

Besides thin-capitalization rules, the Mexican flat tax introduced in 2008, disallows the deduction of interest payments and taxpayers are required to pay the greater of corporate income tax or flat tax. To identify the optimal amount of debt to be allocated to Mexico it is necessary to carry out projections for both taxes.

Under Mexican domestic tax legislation, all taxpayers are required to price their transactions with related parties on an arm's length basis. When transactions are carried out with foreign-based related parties, taxpayers are also required to prepare and maintain documentation that supports the arm's length price by identifying related parties and disclosing information regarding the functions, risks, and assets associated with each type of transaction performed with related parties.

Withholding Tax on Debt and Methods to Reduce or Eliminate

Interest is considered to be Mexican source when the capital is placed or invested in Mexico or when the party paying the interest is a Mexican resident or a non-resident with a permanent establishment.

WHT rates applicable to interest paid vary according to the foreign beneficiary, the borrower domiciled in Mexico, and the purpose of the loan.

Applicable withholding rates:

- 4.9 percent may apply when loans, or other credit payable by Mexican financial institutions, as well as those placed through banks in a country with which Mexico has a double taxation treaty.
- 10 percent for finance entities owned by foreign governments and foreign banks, including foreign investment banks and non-bank banks, provided they are the effective beneficiaries of the interest, are registered with the tax authority, and have filed the same information required by general rules on financing granted to borrowers domiciled in Mexico. Non-bank banks should also comply with the requirements established by the Mexican tax authorities relating to placement percentages and deposits received.
- 21 percent for foreign suppliers who sell machinery and equipment forming part of the acquirer's fixed assets.
- 21 percent for financing to acquire machinery and equipment and in general to furnish working capital, if these circumstances are mentioned in the agreement and such creditors are registered for this purpose with the SAT.
- 28 percent for other interest (such as loans granted by foreign related-parties). This rate should increase as discussed previously.

However, payments of interest by a Mexican resident to a foreign related-party subject to a preferential tax regime (tax haven) are subject to 40-percent WHT. Notwithstanding the foregoing rates, tax treaty rates should be observed. The highest tax treaty rates for general interest payments are 15 percent and 10 percent, depending on the terms negotiated with each country and whether the treaty includes a most favored nation clause.

Withholding is triggered when payment is made, or when interest is due, whichever occurs first.

Checklist for Debt Funding

- It is very difficult to implement debt push-down strategies in Mexico.
- To identify the optimal amount of debt to be allocated to Mexico it is necessary to carry out projections for corporate income tax and flat tax, which does not allow the interest deduction.
- The use of bank debt may avoid thin-capitalization and transfer pricing problems, but back-to-back loan restrictions may apply.
- Maximum WHT will apply on interest payments to non-Mexico entities unless a lower rate applies under the relevant double tax treaty.

Equity

When incorporating a new company there is no capital duty in Mexico. However, Public Registry recording duties may apply. According to Mexican income tax law the income obtained by the corporation from capital increases is not taxable, but such increases of capital in Mexican or foreign currency must be notified with a detailed return filed within 15 days of the receipt of the capital. Transfers of goods to the capital of another company are taxed as sales, and corporate tax may be triggered on gains derived from the transfers.

No currency restrictions apply in Mexico, so capital contributions and repatriations can be achieved in foreign currency. However, from Mexican legal and tax standpoints, once the capital contribution in foreign currency is made, it is converted into Mexican currency. This means that, if the Mexican currency suffers a substantial devaluation the foreign investor may suffer a loss in foreign currency terms.

Capital repatriations in the form of share redemptions are not subject to exit capital duties and can be effected tax-free for the shareholder up to the amount of contributed capital per share.

In an alienation of shares or of security instruments representing the ownership of property, the source of wealth shall be deemed to be located in Mexico when the issuing entity resides in the country or when more than half the accounting value of said shares or security instruments is derived directly or indirectly from real property located in the country. Income tax would be assessed applying 25 percent on the gross amount without any deduction, or 28 percent on the gain. The latter treatment would only be applicable if some requirements are met, such as the non-resident (seller) should have a representative in Mexico, his/her income is not subject to a preferential tax regime, and he/she files an audit prepared by a certified public accountant (CPA), with the tax authorities. Furthermore, in the case of transactions with related parties, the CPA must report the market value of the alienated shares in the audit. The withholding must be made by the purchaser if it is a resident, or a non-resident with a permanent establishment in Mexico. Otherwise the taxpayer shall submit the applicable tax by a return to be filed with the authorized offices within 15 days of the receipt of the income.

Dividend payments made abroad are exempt from WHT.

According to Mexican tax provisions, a domestic merger may be carried out tax-free if the following conditions are met:

- A notice of the merger is filed with the tax authority by the surviving company no later than one month following the date in which the merger is approved by the shareholders.
- Following the merger, the surviving company continues to carry out the activities that it and the merging companies carried out before the merger for a period of at least one year following the date in which the merger was completed.
- The surviving company files all tax and information returns on behalf of the merging companies for the fiscal year in which the merger is completed including payment of any tax liability at the date of the merger.

Finally, reorganizations on a tax free basis may be carried out in certain cases; however, further analysis is required case by case.

Other Considerations

Concerns of the Seller

The tax position of the seller can be expected to have a significant influence on any transaction. As discussed previously, in certain circumstances, the seller may prefer to realize part of the value of his/her investment as income by means of a pre-sale dividend, if the company has a sufficient balance in its net after tax earnings account.

Note that many companies in Mexico are family businesses; as a result, the disposal of the shares is commonly taxed at an individual rather than a corporate level. This is very important because the seller generally looks to pay reduced taxes on the transaction and may propose arrangements that could cause tax contingencies for the company that is being acquired. It is, therefore, advisable to identify the transaction structure proposed by the seller at the beginning of the process, to evaluate its tax implications and reduce potential delays.

Company Law and Accounting

Legal entities may be organized in various forms under Mexican law:

- Sociedad en nombre colectivo – the usual general partnership form.
- Sociedad en comandita simple – a limited partnership with some general partners (having unlimited liability) and some limited liability partners; its capital is represented by social interests.
- Sociedad en comandita por acciones – a limited liability stock partnership with some general partners (having unlimited liability) and some limited liability partners; its capital is represented by shares.
- Sociedad de Responsabilidad Limitada or S. de R.L. – a partnership with limited liability for all its members, in which the capital is represented by social interests.
- Sociedad Anónima or S.A. – entity similar to the U.S. corporation in which all its members have limited liability and its capital is represented by common shares.
- Sociedad Anónima Promotora de Inversión or SAPI – this new type of entity will be available to investors. The entity is organized in general terms as an S.A., but is exempt from certain obligations,

which gives shareholders additional rights. The SAPI is recommended for joint venture projects and entities that may become publicly-listed companies.

General partnerships are not often used by foreign investors, because they lack limited liability. Although, for tax purposes in Mexico an S de R.L. is treated in exactly the same way as any other commercial entity, for tax purposes in the United States it may be treated as an eligible entity for partnership status and as such its U.S. partners, whether corporate or individual, will benefit from the pass-through taxation rules.

The S.A. is the most common entity used by foreign investors in Mexico, and further discussions in this chapter focus on this type of corporation. Both an S.A. and an S. de R.L. may be incorporated on the variable capital (de capital variable) model, which enables the capital to be increased or decreased by simple shareholders' or partners' resolution, as the case may be, without further formalities. The shareholders may extract their contributions to the variable capital without any special formalities, but cannot withdraw their shares of the fixed capital, which has to be maintained at the minimum mandatory level.

Mergers and acquisitions (M&A) in Mexico should be accounted for according to the NIF's (financial reporting standards in Mexico), which in general, are consistent with IFRS. There are some differences, however, including the following:

- Under IFRS if the value of net assets acquired exceeds consideration and any retained minority interest, a gain should be recognized. Mexican FRS does not allow the recognition of any gain until intangible and fixed assets values are adjusted to zero.
- Under Mexican FRS, the vendor's contingent liabilities are recognized when payment is deemed to be probable and the amount can be reasonably estimated. Under IFRS, the vendor's contingent liabilities are recognized if fair value can be reasonably estimated.
- IFRS state that when an entity obtains control through a series of acquisitions (step acquisitions), it should revalue any previously held equity interests at its acquisition-date fair value, and record with any gain or loss through the operating statement. New guidance for Mexican FRS does not allow the recognition of any gain or loss when control is obtained through step acquisitions.

Group Relief/Consolidation

If the purchaser owns other Mexican companies, the target company can be included in the Mexican tax group if certain requirements are met, among others, that the Mexican holding company should own, directly or indirectly, more than 50 percent of the voting shares of the target company, and in no case can more than 50 percent of the Mexican holding company's voting shares be held by another or other companies, unless the latter are residents of a country with which Mexico has a treaty that includes a broad information exchange clause.

As mentioned previously, the 2010 tax reform changed the consolidation regime to one of deferral, with the obligation to pay the deferred tax after a period of five years

Transfer Pricing

Mexico's Income Tax Law imposes an obligation on all taxpayers that execute transactions with related parties, to undertake a transfer pricing study to demonstrate that the arm's length principle was honored.

Dual Residency

There are no advantages under Mexican tax law for a dual-resident company.

Foreign Investments of a Local Target Company

Mexico, in common with other countries, has established anti-tax haven provisions to close a loophole both Mexican and foreign investors were using to allocate income to tax havens, and so reduce their Mexican taxable income. The legislation is designed to prevent Mexican taxpayers from deferring Mexican income taxes by using preferential tax regimes or tax havens. Currently, the anti-tax haven provisions encompass all types of investments by a Mexican resident, both direct and indirect.

The definition of tax haven or preferential tax regime has been amended to embrace any regime where taxes paid are less than 75 percent of the amount that would be paid in Mexico. Income accrual does not apply to income derived from activities other than interest, dividends, royalties, gains on the sale of shares, real property, or the temporary use or enjoyment of real property, and the country where the investment is located has a current treaty for the broad exchange of information with Mexico.

Income from a foreign source, where the WHT rate has been reduced or there is an exemption under a tax

treaty executed with Mexico, will also not be considered for income tax purposes. This treatment does not apply to legal entities incorporated abroad that are not taxpayers, or are deemed transparent for tax purposes.

Direct and indirect Mexican investors in preferential tax regimes are obliged to recognize the income on a current basis, and file an annual information return on their business and the investment activities in such jurisdictions.

Comparison of Asset and Share Purchases

Advantages of an Asset Purchase

- Any VAT paid may be refunded if the purchaser is a Mexican resident.
- A step-up in the tax basis of fixed assets and intangible property is allowed for income tax and flat tax.
- There is no transfer of seller's liabilities, except in the case of an acquisition of the overall trade or business. However, strategies are available that avoid this contingency.
- Vehicle can be properly designed from the beginning, including exit strategies.

Disadvantages of an Asset Purchase

- Time required for setting up the vehicle to complete the asset purchase.
- Employees transferred typically demand seniority recognition from the new employer, unless they receive a severance payment from the old employer.
- Property transfer taxes may apply.
- Goodwill paid is not allowed as a deduction.
- VAT may increase the cost of the transaction in certain circumstances.

Advantages of a Share Purchase

- Less time-consuming process.
- It is likely to be more attractive to the seller, both commercially and from a tax perspective (because the disposal may be exempt), so the price may be lower.
- Transfer of tax loss carry-forwards and other tax credits is allowed.

- The right to distribute dividends to shareholders from the net after tax earnings account tax-free is transferred with the shares.
- There is no real estate transfer tax.
- The acquisition of shares is not subject to VAT.

Disadvantages of a Share Purchase

- The buyer effectively becomes liable for any claims or previous liabilities of the entity, including tax (that is, there is a joint liability for unpaid taxes over the previous five years).
- No deduction is available for the purchase price respect income tax or flat tax.
- Deferred tax liabilities are acquired.
- It may be more difficult to finance tax-efficiently.

Withholding Tax Rate Chart

The rate information and footnotes contained in this table are from the 2009 IBFD/KPMG Global Corporate Tax Handbook.

Country	Dividends		Interest ¹ (%)	Royalties (%)
	Individuals, Companies (%)	Qualifying Companies (%)		
Australia	15	0	10/15 ³	10
Austria	10	5	0/10 ⁴	10
Barbados ²⁹	10	5	0/10 ⁴	10
Belgium	15	5 ⁵	10/15 ⁶	10
Brazil	15	10 ^{7,8}	-15 ⁸	10/15 ⁸
Canada (new)	15	5	0/10 ⁴	0/10 ⁹
Chile	10	5 ⁷	5/10/15 ¹⁰	10 ¹¹
China (People's Rep.)	5	5	10	10
Czech Republic	10	10	10	10
Denmark	15	0 ⁵	0/5/15 ¹²	10
Ecuador	5	5	0/10/15 ¹³	10
Finland	0	0	0/10/15 ¹⁴	10
France	0/5 ¹⁵	0/5 ¹⁵	0/5/10 ¹⁶	0/10 ¹⁷
Germany	15	5	0/10/15 ¹⁸	10
Greece	10	10	10	10
Iceland	15	5	0/10 ⁴	10
Indonesia	10	10	0/10 ⁴	10
Ireland	10	5	0/5/10 ¹³	10
Israel	10	5	0/10 ⁴	10
Italy	15	15	0/10 ¹⁹	0/15 ⁹
Japan	15	0/5 ²⁰	10/15 ²¹	10
Korea (Rep.)	15	0	0/5/15 ¹²	10
Luxembourg	15	8	0/10 ⁴	10
Netherlands	15	5	0/5/10/15 ²²	10
New Zealand	15 ²³	15 ²³	0/10 ⁴	10
Norway	15	0 ⁵	0/10/15 ¹²	10
Poland	15	5 ⁵	0/5/15 ²⁴	10
Portugal	10	10	0/10 ⁴	10
Romania	10	10	15	15
Russia	10	10	0/10 ⁴	10
Singapore	0	0	5/15 ²⁵	10
Slovak Republic	0	0	0/10	10
Spain	15	5 ⁵	0/10/15 ¹³	0/10 ⁹
Sweden	15	0/5 ²⁶	0/10/15 ¹³	10
Switzerland	15	5 ⁵	0/10/15 ¹³	10
United Kingdom	0	0	0/5/10/15 ²²	10
United States	10	0/5 ²⁷	0/4.9/10/15 ²⁸	10

Notes

- Many treaties provide for an exemption for certain types of interest, such as interest paid to the state, local authorities, the central bank, export credit institutions, or in relation to sales on credit. Such exemptions are not considered in this column.
- The rate generally applies with respect to participations of at least 10 percent of the capital or voting power, as the case may be.
- The 10-percent rate applies to interest derived by banks or insurance companies, from bonds and securities traded on a securities market, paid by banks (provided that the above is not applicable), or paid by the purchaser to the seller of machinery and equipment in relation to sales on credit.
- The zero rate applies, inter alia, to interest paid by public bodies.
- The rate generally applies with respect to participations of at least 25 percent of the capital or voting power, as the case may be.
- The 10-percent rate applies to interest from loans that are not represented by bearer securities and are granted by banking enterprises.
- The rate applies with respect to participations of at least 20 percent of voting power.
- In respect of, inter alia, interest paid by public bodies there is no reduction under the treaty. The domestic rate applies (taxable only in the source state). The protocol establishes a most-favored nation clause as regards dividends, interest and royalties. In respect of royalties, the rate under the treaty is 15 percent; however, by virtue of the most-favored nation clause (protocol, para. 5), the rate is reduced to 10 percent for any royalties other than those derived from the use or the right to use trademarks (under the treaty between Brazil and South Africa, the rate is 10 percent).
- The lower rate applies to copyright royalties (excluding films, etc.).
- The rate under the treaty is 15 percent. However, by virtue of a most-favored nation clause (protocol, para. 3), applied by virtue of the treaty between Chile and Spain, the rate is reduced to 5 percent for interest from loans granted by banks and to 10 percent for interest from loans granted by insurance companies, from bonds or securities regularly and substantially traded on a recognized securities market, and for interest in relation to sales on credit.
- The rate under the treaty is 15 percent. However, by virtue of a most-favored nation clause (protocol, para. 4), the rate is reduced to 10 percent (under the treaty between Chile and Spain, the rate is 10 percent).
- The zero rate applies, inter alia, to interest paid by public bodies. The intermediate rate applies to interest in the case of banks.
- The zero rate applies, inter alia, to interest paid by public bodies. The intermediate rate applies to interest paid to banks.
- The zero rate applies, inter alia, to interest paid by public bodies. The 10-percent rate applies to interest in the case of banks, on bonds or securities that are regularly and substantially traded on a recognized securities market, and on interest in relation to sales on credit.
- The 5-percent rate applies if the recipient is a company whose capital is controlled for more than 50 percent by one or more residents of third states.
- The zero rate applies, inter alia, to interest paid by public bodies. The general rate under the treaty is 15 percent. However, by virtue of a most-favored nation clause (protocol, para. 6), the general rate is reduced to 5 percent for interest paid to banks and insurance companies and for interest from quoted bonds (the rate on such interest is 5 percent under the Mexico-U.K. treaty), and to 10 percent in other cases (the rate is 10 percent under the Mexico-Ireland treaty).

17. The zero rate applies to copyright royalties, excluding films, etc. The general rate under the treaty is 15 percent. However, by virtue of a most-favored nation clause (protocol, para. 6), the rate is reduced to 10 percent (the rate is 10 percent under the Mexico-U.S. treaty).
18. The zero rate applies, inter alia, to interest paid by public bodies. The 10-percent rate applies to interest from loans granted by banks, insurance companies and pension funds.
19. The zero rate applies, inter alia, to interest paid by public bodies. The general rate under the treaty is 15 percent. However, by virtue of a most-favored nation clause (Protocol, para. 6), the rate is reduced to 10 percent (the rate is 10 percent under the Mexico-Portugal treaty).
20. The zero rate applies if dividends are paid to a company that owns at least 25 percent of the voting shares issued by the paying company during the six-month period prior to the distribution accounting period, the shares issued by the recipient company are regularly traded on a recognized Japanese stock exchange and more than 50 percent of the shares of the recipient company are owned by qualifying persons. The 5-percent rates applies to dividends paid to a company that owns at least 25 percent of the voting shares issued by the paying company during the six-month period prior to the distribution accounting period.
21. The 10-percent rate applies to interest paid to or by banks and insurance companies, on bonds and securities regularly and substantially traded on a recognized stock exchange, and to interest paid to sellers of machinery and equipment in relation of a sale on credit.
22. The zero rate applies, inter alia, to interest paid by public bodies. The 5-percent rate applies to interest derived by banks, financial institutions and insurance companies, and on bonds or securities regularly and substantially traded on a recognized securities market. The 10-percent rate applies if the preceding sentence does not apply and the interest is paid by banks or in relation to sales on credit.
23. The treaty (protocol, para. 9) includes a most-favored nation clause as regards dividends.
24. The zero rate applies, inter alia, to interest paid by public bodies. The 5-percent rate applies to interest paid to banks or insurance companies, and to interest on bonds or securities regularly and substantially traded on a recognized securities market.
25. The lower rate applies to interest paid to banks.
26. The zero rate applies with respect to participations of at least 25 percent of voting power if at least 50 percent of the voting power of the Swedish company is owned by residents of Sweden. The 5-percent rate applies with respect to participations of at least 10 percent of voting power.
27. The zero rate applies if the recipient company owns 80 percent or more of the voting stock of the Mexican company for the 12-month period ending on the date the dividends are declared and owned at least 80 percent of such stock prior to 1 October 1998, or qualifies under certain provisions of the limitation on benefits article of the treaty.
28. The zero rate applies, inter alia, to interest paid by public bodies. The 4.9-percent rate applies to interest derived from loans granted by banks and insurance companies, and bonds or securities that are regularly and substantially traded on a recognized securities market. The 10-percent rate applies if the preceding sentence does not apply and the interest is paid by banks or in relation to sales on credit.
29. Effective from 1 January 2010.

KPMG in Mexico

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