MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES

DE ANDA, TORRES, GALLARDO Y CÍA.

Mexican Taxation Framework

General Overview

June 2015

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES

DE ANDA, TORRES, GALLARDO Y CÍA.

Corporate Tax system

Moore Stephens International | 2015

Corporate tax system

Tax period

Equal to calendar year (January 1st to December 31st).

Accounting methods

Mexican Financial Reporting Standards (MFRS) and they are adjusted for tax purposes. Accounting must be kept in Spanish language and in Mexican Pesos.

Inventory valuation

Any method used by the Company according to MFRS can be used for tax purposes. (LIFO is not allowed).

Also, absorbent valuation system must be considered.

Electronic tax returns

Currently, all federal tax returns of Corporations, are submitted (filed) electronically (using the FIEL) and tax payments performed through bank electronic transfers.

Logistic:

- An informative tax return is submitted through the tax authorities web page (www.sat.gob.mx). A reference code is provided.

- Subsequently, through the web page of the bank, the payment of taxes payable is performed, using the reference code described in previous paragraph. This only in the case of amounts subject to payment.

Penalties on delayed tax payments

Delay on payments are subject to restatement with inflation and monthly surcharges (1.13% per month) calculated from the payment due date to the effective payment date.

If payment is requested by tax authorities, a penalty is added to restated amounts and surcharges.

Tax authorities

Ministry of Finance and Public Credit (SHCP) trough the Tax Administration Service (SAT) is the responsible for assuring federal tax compliance. Offices in major cities and cooperation agreements with local authorities. These offices deal with the interpretation of the law, consultation, authorizations and direct tax audits.

Corporate tax system

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Tax dynamic

Each year, Mexican Congress updates and modifies existing tax laws, including annual rules to clarify current tax legislation.

Tax environment

Mexican entities are exposed to be reviewed by Tax Authorities, to a wide regulating tax framework and to a high level of discretion regarding interpretation of the Mexican Tax Laws. As a result thereof, entities are exposed to the possibility of being subject to a direct review or inquires by the tax authorities in connection with the compliance of the tax obligations of the last five to ten years.

Authorities tax audits

Mexican tax authorities has access to significant resources in order to verify tax compliance of corporate taxpayers.

Tax authorities have the right and power to ask questions and request information from tax payers and also the right to request information from banks and government agencies to assure tax compliance.

Also, they can carry out direct audits on accounting records or bank accounts at any time on a discretional basis. Can also, request from third parties, confirmation of transactions related to the audited taxpayer.

Tax audits by public accountants – Special report for tax purposes (SRTP)

Tax authorities authorizes independent public accountants who fulfill certain requirements to perform tax compliance audits and to issue an electronic SRTP, which is similar to audit reports issued on the financial statements and is comprised by a series of charts and notes that show on a comparative basis, detailed tax information. In addition, this SRTP is currently sent to tax authorities via internet and must comply with professional standards.

Statements included in the SRTP are recognized by tax authorities and could avoid direct audits, However, tax authorities have the right to perform direct audits if they believe there are valid reasons.

Until 2013:

SRTP was mandatory for taxpayers that are subject to certain parameters. Taxpayers that were not subject, were able to file it voluntarily.

Even this obligation, there was a temporarily option for Corporations, to directly present a similar SRTP without the assessment of an authorized independent public accountant, however, the experience shown that main Corporations, including subsidiaries of foreign Corporations decided no to take such option.

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Beginning 2014 (Tax modification):

SRTP is optional only for the following taxpayers:

- With annual *revenues* equal or higher than $100 millions of Mexican Pesos (MxPs).
- With *assets* equal or higher than $79 millions MxPs.
- With a monthly average of 300 or more *employees.*

Taxpayers that do not meet this parameters will not be allowed to file a SRTP in any case.

Territoriality

Corporate tax is usually applied on profits earned in Mexico for Mexican residents and for permanent establishments of foreign companies or for foreign residents with profit source in Mexico.

Withholding tax on payments to foreign residents

In this regard, any payment to foreign residents for concepts different to tangible assets are subject to a withholding tax.

Percentage of withholding tax may vary among the different payment concept (royalties, technical assistance, interests, fees, etc).

The payer of the income is required to withhold the tax and pay it, by means of a tax return, to the tax authorities before the 17th of the month following that in which the payment was made.

This payment is considered definitive unless the foreign resident obtains residence in Mexico during the year, in which case it would be considered as prepayment.

Specific treaties in force to avoid double taxation or a lower withholding tax rate.

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Transfer pricing

Transfer pricing compliance on related parties is an increasing concern to tax authorities, mainly on transactions with foreign related parties. Tax authorities may modify the taxable income by determining products or services prices performed by resident and non resident companies or individuals, trust, or related parties, whenever:

- Sales or services are performed at a price under the market value or when the transfer price is lower than the acquisition cost.
- Sales are made at cost or lower, with the exception of when cost equals market value and the products have declined in value.
- Operations involve imports and exports and payments abroad, or
- Sales or services are performed between related parties, which means, affiliated companies.

Corporate tax system

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Tax authorities may consider the following criteria in determining transfer prices for modification of the taxable income:

- Current internal or external market prices, or appraisals by tax authorities.
- Cost of good or services plus the taxpayer´s gross profit declared on
  the annual tax return.

Corporate tax system

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

The Mexican transfer pricing approach is aligned with the OCDE approach.

Mexican Law considers transfer pricing rules since 1997, stipulating that taxpayers performing any kind of operations with related parties, are obligated to determined prices for non-related parties and a comparable operations basis (for practical purposes, a study covering annual transactions is performed).

Taxpayers are also obligated to retain documents in support of the methodology used to determine compliance with the transfer pricing principle.

Full electronic invoices (CDFI)

Beginning 2014, all taxpayers must issue full electronic invoices (CDFI). (Tax modification). CDFI are issued and certified by an invoice supplier authorized by tax authorities and are sent by email to customers.

CDFI are issued in electronic version (xml format) and a PDF® version is also issued
For representation purposes only.

Issued CDFI are encrypted with the Company´s Electronic Signature (FIEL).

It also applies to credit notes.

Full electronic payroll receipts

Beginning 2014, all taxpayers paying payroll or other remunerations to employees must issue full electronic payroll receipts by every single employee and every single payment. (Tax modification).

Electronic accounting

Beginning 2015, all taxpayers that meet certain parameters are subject to initially submit to tax authorities the accounting chart and to submit it on every change or modification.
Such accounting catalog or chart must be codified in addition with a standard account number released by tax authorities.

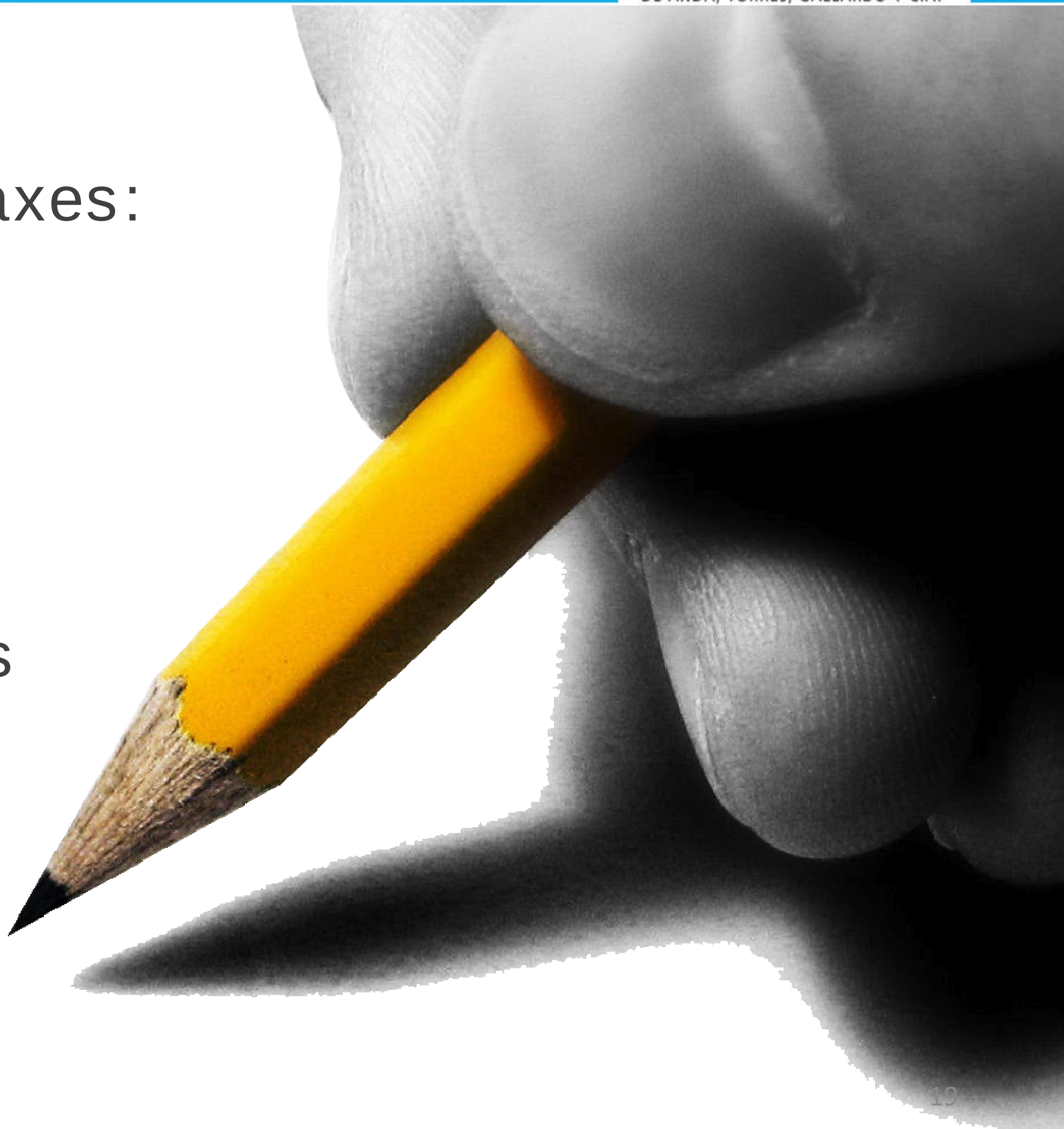
In addition, accounting top trial balance must be submitted to tax authorities on a monthly basis, showing amounts for initial and final balances and credits and debits for every account.

Corporate tax system

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Three levels of taxes:

- Federal taxes
- State taxes
- Municipal taxes



MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES

DE ANDA, TORRES, GALLARDO Y CÍA.

Federal taxes

Moore Stephens International | 2015

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Federal Taxes

Direct

- Income Tax (ISR)
- ~~Tax on Cash Deposits (IDE)~~ (a)
- ~~Flat Tax (IETU)~~ (a)

Indirect

- Value Added Tax (VAT)
- Foreign trade Taxes (IGI – IGE)
- Special Tax on Production And Services (IEPS)

(a) Abrogated beginning 2014. (Tax modification)

Until 2013:

Payable amount for Corporate tax on profits - higher between ISR and IETU.

Beginning 2014 (Tax modification):

IETU is abrogated. Only ISR will be in force.

Income Tax (ISR)

Taxable income is incurred when the first of the following events occur:

- When income is earned (At delivery of goods or rendering of services).
- At invoicing.
- At collection.

Corporate Tax

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Other taxable revenues:

- Gain on exchange rate.
- Accrued interest income.
- Income on fixed assets sale.
- Liabilities release (cancellation from creditor).
- Any other earned income.

Deductions for ISR are based on the same principles with certain requirements.

Business Flat Tax (IETU) - (abrogated beginning 2014)

Taxable income incurred at *cash flow* collection.

Deductions for IETU are based on the same *cash flow* principle with certain requirements.

Basis (taxable income higher than deductions, subject to a 17.5%)

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Promulgated Tax rates in force:

30%
ISR

16% (a)
IVA

17.5% (b)
IETU

(a) General rate.

(b) Applied until 2013.

ISR is determined on an annual basis.

Prepayments are mandatory to be calculated considering cumulative numbers (from January 1st to the month of calculation).

Calculation of prepayments

ISR – based on factor of profit of the last previous tax year with tax profit.

Year-end application of prepayments

<u>Until 2013:</u>

At year end, annual calculation of ISR and IETU are performed and compared. Annual corporate tax on profits will be the higher. Prepayments of ISR and/or IETU are credited against the determined annual corporate tax.

If prepayments are higher than final annual tax, excess can be credited in the future against ISR and/or IETU or other federal taxes. Refund can be also requested.

<u>Beginning 2014 (Tax modification)</u>

Only ISR applies. (IETU is abrogated).

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Tax deductions in excess of taxable income (tax losses)

For ISR and IETU can be amortized against taxable profits over the following 10 years. Amounts to be amortized can be restated with inflation. Beginning 2014 (Tax modification) this will apply for ISR only.

Main deductions

- Discounts and returns.
- Cost of sold goods (merchandise and inventories).
- Cost of sold fixed assets.
- Operating expenses.
- Investments depreciation and amortization.
- Non recoverable credits.
- Financial expenses (includes loss on exchange rate).

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

General guidelines for deductions (expenses, costs and investments)

- Cost of disposals or sale of fixed assets, depreciation and amortization can be restated using inflationary factors. Must be calculated considering maximum depreciation or amortization tax percentages. Automobiles deduction limited to an acquisition amount of $175,000 MxPs until 2013 and $130,000 MxPs beginning 2014 (Tax modification).

- Must be related to and necessary for business operation, except for donations, which have a special tax treatment.

- Must be entered in the accounting books.

- Must be supported with digital invoices providing certain information for the supplier.

Corporate Income Tax

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

- Payments in excess of $2,000 (MxPs), can not be performed on a cash basis, they must be paid through electronic bank transfers or checks.

- Special rules for specific concepts (travel expenses, fuel, meals, etc).

- Expenses for services received from Civil partnerships, Civil Associations and individuals (persons) are deductible at payment. Payments to mercantile corporations are deductible according to rules for taxation on ISR.

Non deductible expenses (general overview):

- Income or flat tax.
- Gifts and similar expenses (except in marketing matters).
- Certain foreign expenses.
- Increases to accounting provisions and estimates affecting P/L).
- Expenses in connection with recreation facilities, planes and boats (with certain exceptions).
- 87.5% of meals in restaurants and bars (92% beginning 2014).
- Indemnities and damage payments to third parties.
- Credit on salary paid to employees.
- Sanctions, fines and penalties.
- House leasing.
- Taxes paid on behalf of any third or related party.
- Goodwill.

General guidelines for deductions (expenses, costs and investments)

- Donations are deductible only when they are granted to authorized organizations for such purposes.
    - Beginning 2014, are deductible up to a limit of 7% of ISR taxable income (Tax modification).
- Benefits to employees (different to nominal salaries and wages) are deductible when they are granted to all employees and with certain rules according with the type of benefit.
    - Beginning 2014, no taxable income to employees (fund saving, meals coupons, etc). Are deductible up to a limit of 53% (Tax modification).

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Annual inflation adjustment

- Currently, the inflation effect on financial assets and liabilities (monetary) is computed applying the annual inflation rate to the net between monetary assets and liabilities.
    - If inflation increases and monetary liabilities are higher than assets, *a taxable income* will arise.
    - If inflation increases and monetary assets are higher than liabilities, a *deduction* will arise.
- Annual inflation adjustment is not entered in the accounting books, however the basis for its calculation arise from such amounts.

Value Added Tax (VAT)

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

VAT is charged on services or products and is passed through the supply chain from the manufacturer to the supplier, to the distributor until it reaches the final consumer who has to pay the final service or product consumed.

VAT must be determined on a monthly basis comparing VAT collected from sales and other revenues with VAT paid for products and services. (cash flow basis).

Taxpayers must file monthly tax returns. Monthly VAT payment is considered definitive payment

Current general tax rate: 16%. Other tax rates applies to specific products or services (0%, 11%).

- Beginning 2014 11% rate is increased to 16%. (Tax modification).

Value Added Tax (VAT)

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

VAT applies to:

- Sales of goods.
- Services.
- Use or temporary benefit of goods (rent, leasing).
- Import of goods and services.

There are certain exemptions to each one of these basic categories, by example residence real state sales.

If revenues are exempt for VAT, VAT paid for expenses, fixed assets and inventories are expensed and deducted for ISR.

Withholding tax on dividends

Until 2013:

Dividends are not taxable income for the stockholder (individual or corporation) who receives the if the dividend proceeds from the "Fiscal Net Profit" (CUFIN). If dividend does not proceed from CUFIN, a withholding tax of 30% is mandatory.

Beginning 2014 (Tax modification):

Beginning 2014, there is an additional withholding tax of 10%, therefore:

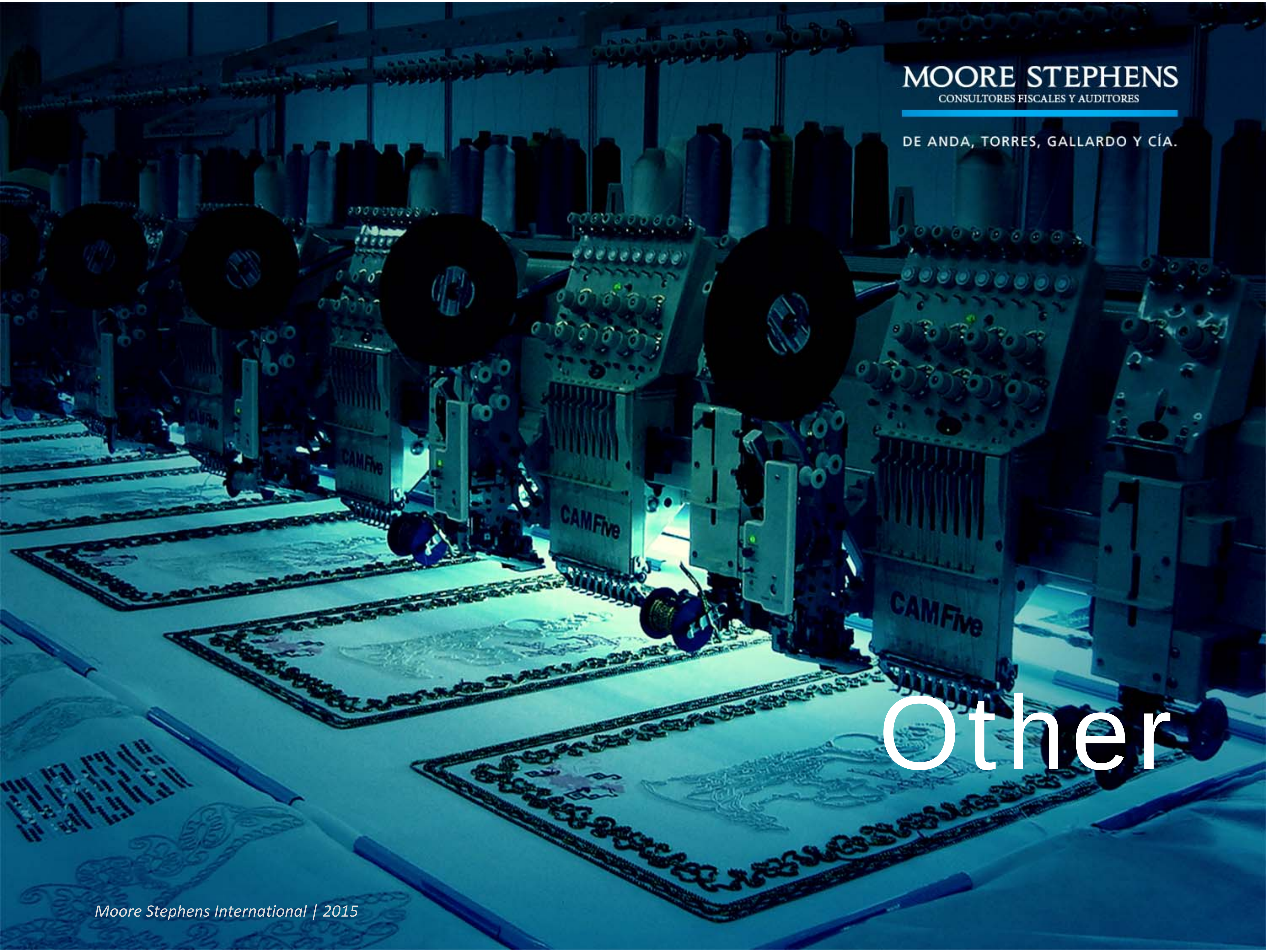
- Dividends proceeding from CUFIN would be subject to a 10% withholding tax.

Tax on Dividends

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

- Dividends not proceeding from CUFIN would be subject to a total 40% withholding tax.

CUFIN is basically the taxable profit (tax profit, less the related income tax, less non-deductible items), It should be controlled separately from accounting books (tax registry).



MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES

DE ANDA, TORRES, GALLARDO Y CÍA.

Other

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

Income tax - ISR on individuals:

- Every single person (individuals) are subject to income tax (ISR) for any income earned in México (salaries, fees, interest, etc).
- Individuals ISR rate would be according to the level of revenues earned every period (progressive increase).
- Organizations performing payments to individuals are subject to withhold ISR on every single payment at different rates according to tax regime of the individual (salaries, fees, interests).
- As general rule, individuals earning more than $400,000 MxPs per year, are subject to file an annual tax return determining the annual income tax (ISR) which is reduced with withholding tax on payments performed by organizations through the year.

Money Laundry Prevention Federal Law:

Law promulgated and released in 2013 establishes significant measures to avoid and prevent the usage of proceeds from criminal organizations.

Among others, establishes the following obligations:

Organizations and individuals performing certain “sensitive transactions” (generally those considered as suppliers) must:

- ***To be registered*** in the “Register of persons performing sensitive transactions” of the Treasury Ministry. (via internet).
- ***To identify*** users of its services and products (generally those considered as its customers).
- ***To quantify amounts*** of sensitive transactions on a monthly basis, performed by users. (monthly amount of sales to a single customer).

Other

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

- ***To report to tax authorities*** on a monthly basis, information about users and amounts of performed sensitive transactions. There must be considered that several reporting over the same transaction may be mandatory by all individuals or entities involved in the transaction.

Among other, the following transactions are considered “sensitive”, which we believe could apply to your Group (subject to analysis):

- o Direct sale of real state.
- o Real state development granting property rights.
- o Reseller or indirect involvement on real state sales.

Contact info

MOORE STEPHENS
CONSULTORES FISCALES Y AUDITORES
DE ANDA, TORRES, GALLARDO Y CÍA.

For further information, please contact us.

José Antonio De Anda | Partner
jdeanda@msdat.com.mx

Omar Torres | Partner
otorres@msdat.com.mx

Roberto Gallardo | Partner
rgallardo@msdat.com.mx

Office address:

Bosque de Duraznos 61-9
Bosques de las Lomas
Mexico City, Mexico, C.P. 11700

Switchboard +52 (55) 5245-1005