

University of Mississippi

eGrove

---

Touche Ross Publications

Deloitte Collection

---

1-1-1968

## Executive digest: Mexico

Touche Ross International

Follow this and additional works at: [https://egrove.olemiss.edu/dl\\_tr](https://egrove.olemiss.edu/dl_tr)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

Touche Ross International, "Executive digest: Mexico" (1968). *Touche Ross Publications*. 773.  
[https://egrove.olemiss.edu/dl\\_tr/773](https://egrove.olemiss.edu/dl_tr/773)

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Touche Ross Publications by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

**TOUCHE ROSS International**  
**Executive Digest | Mexico**



DEPARTMENT OF AGRICULTURE  
WILLIAMS  
LIBRARY  
1816

**BASIC DATA**

**GOVERNMENT**

The United States of Mexico is a federal democratic republic. It consists of 29 states, two territories, and the Federal District, which includes the capital. Executive power is in the hands of a president, currently Gustavo Diaz Ordaz, who is elected for a six year term by popular vote. The Constitution provides that no president may serve more than one term. Legislative power resides in a bicameral congress (Chamber of Deputies and Senate).

A political party formed in 1929, the Partido Revolucionario Institucional (PRI) has had a near monopoly on elective office. All presidents since 1929 and more than 90% of the Chamber of Deputies are PRI.

**LANGUAGE**

Spanish is the official language.

**POPULATION**

Estimated at 45.7 million with an annual growth rate of 3.6%.

**PRINCIPAL CITIES**

	Estimated Populations
Mexico City	7,100,000
Guadalajara	1,200,000
Monterrey	1,100,000
Puebla	440,000

**LITERACY RATE**

Due to an emphasis on education, the literacy rate has risen to about 70%. It is expected to continue improving as sizeable percentages of the national budget (about 27%) are devoted to education.

**TIME FACTORS**

Mexico is one hour earlier than New York City. When it is 9:00 p.m. in New York City, it is 8:00 p.m. in Mexico. During Daylight Saving Time, Mexico is two hours earlier than New York.

**PRINCIPAL MANUFACTURES**

The principal manufactured items are beverages, cement, cigarettes and matches, chemicals, construction supplies, electronics, fertilizers, glass, household durables, paint, paper, perfume, pharmaceuticals, rubber products, soap and detergents, textiles, and transport vehicles which include automobiles, railroad items, airplanes, and farm vehicles.

## **PRINCIPAL AGRICULTURAL PRODUCTS**

The principal agricultural products are avocados, rotan and other types of bananas, barley, beans, chick peas, chili, cocoa beans, coffee, corn, grapes, mangos, oranges, potatoes, rice, sesame, sorghum, sugar cane, tomatoes and wheat. The principal raw materials derived from agriculture are alfalfa, copra, raw cotton, cotton seed, henequen and tobacco.

## **PRINCIPAL NATURAL RESOURCES**

Mexico's natural resources include abundant forest lands, petroleum, and minerals. The most important minerals are zinc, lead, copper, silver, sulphur, iron, fluoride, mercury, and coal.

## **MAIN IMPORTS AND EXPORTS**

Mexico's exports in 1966 amounted to \$1,190,000,000; imports were \$1,613,000,000. Of Mexico's total exports, \$750,000,000 were to the U.S.A., and well over half of imports were from the U.S.A. The trend of both imports and exports has been upwards.

The following are official figures for imports and exports in 1964. The percentages indicate the relative proportion of an item to all imports or exports for that year. Items which accounted for 5% or less are not shown.

	Exports		Imports
Cotton	16.9	Automobiles and parts	9.7
Coffee	9.2	Other consumer goods	7.5
Fish	5.5	Other raw materials and	
Sugar	7.5	semi-finished goods	19.8
Others	26.1	Transportation items	
		and parts	9.0
		Machinery and parts	13.2
		Other capital goods	20.3

## **UNITED STATES DIRECT INVESTMENT**

Cumulative through 1964 – \$1,035,000,000  
 Cumulative through 1965 – \$1,177,000,000  
 Cumulative through 1966 – \$1,244,000,000

## **ECONOMIC TRENDS**

	1963	1964	1965	1966
Gross National Product (Million Pesos)	194,777	229,753	247,200	269,900
Industrial Production (1958 = 100)	141	159	Increasing about 11% per year	
Cost of Living Index (1958 = 100)	111	114	Increasing about 5% per year	

<b>Economic Trends (cont.)</b>	<b>1963</b>	<b>1964</b>	<b>1965</b>	<b>1966</b>
Government Revenues (Million Pesos)	28,976	19,704	20,095	21,801
Government Expenses (Million Pesos)	28,286	20,295	28,263	24,689
Surplus or (Deficit)	690	(591)	(8,168)	(2,888)

**INVESTMENT FACTORS**

**INVESTMENT INCENTIVES**

Mexico's policy of encouraging industrialization involves providing important incentives which are available both on the national and state level. The duration of these incentives, which are applied for and negotiated with government representatives, varies with the industry and the nature of the applicant's activities. These incentives may take the form of exemptions of up to 100% of customs duties, gross receipts tax, and stamp tax and of up to 40% on income taxes. They are granted for five, seven, ten or fifteen years (with a possible five year extension), except in the case of export industries which are on a year to year basis.

Under Mexican law, 51% Mexican participation is required to obtain benefits, but this is not absolute in practice. It has been waived where other factors such as high percentage of local content in manufactured articles or urgent need for the industry are present. In the northern border area where unemployment is high, the need for labor intensive industries has resulted in a program that offers many incentives as well as waiver of the law requiring Mexican participation. Raw materials and semi-finished products may be imported duty-free if they will become part of goods reshipped to the U.S.A. for sale or final processing. Many U.S.A. firms have taken advantage of this program.

New and essential industries may obtain loans from the Nacional Financiera at favorable interest rates, but at least one-third of the company's capital must be represented by private investment before a loan application will be considered.

**EMPLOYMENT OF U. S. CITIZENS**

Mexican law requires that at least 90% of a company's employees be Mexican citizens. However, managerial and executive personnel are often exempted from this requirement.

Various types of permits are issued to foreigners: (1) a nonrenewable six-month permit for tourists is easily obtained but its holders may not receive compensation in Mexico, (2) a non-citizen's six-month permit which is renewable, and whose holders may be authorized to receive compensation, and (3) an immigration visa which is renewable each year for five years after which the holder is treated as a citizen for labor law purposes. Before a work permit is issued to a foreigner, his prospective employer must be approved and it must be shown that his job cannot be filled by a Mexican citizen. Permits (2) and (3) should be applied for well in advance.

**STOCK EXCHANGE**

Mexico's three stock exchanges are in Mexico City (Bolsa De Valores De Mexico), Guadalajara (Bolsa De Valores De Occidente), and Monterrey (Bolsa De Valores De Monterrey).

Applications to register securities of Mexican companies on a stock exchange must contain:

- A copy of the deed of incorporation
- A description of the security being registered
- Audited financial statements dated within six months of the application
- Comparative financial statements for the previous five years
- General information regarding stockholders' and directors' meetings, dividends, and future plans.

Only a few U.S.A. companies have sold stock to Mexican investors via the stock exchanges. Stock issues of foreign companies must be approved by the Treasury Department.

**BUSINESS ENTITIES****CORPORATIONS**

The Sociedad Anonima (S.A.), the basic form of corporate organization, has many characteristics of a U.S.A. corporation. The initials S.A. after the corporate name serves the same purpose as Corp. or Inc. in the U.S.A. Shareholders of an S.A. are liable only for the value of their capital contributions. There must be at least five incorporators, and at least five shareholders. Minimum capital is \$2,000, and 20% of share value must be paid in cash at the time of organization. An S.A. must have one or more statutory examiners.

It is cumbersome for an S.A. to change its capital structure. A more flexible type of corporation is the Sociedad Anonima de Capital Variable (S.A. de C.V.). An S.A. de C.V. may increase or decrease its capital without the formalities required of an S.A. as long as its minimum capital remains about \$2,000. However, all shares of an S.A. de C.V. must be registered, while shares of an S.A. may be in registered or bearer form.

A Sociedad de Responsabilidad Limitada (S. de R.L.) has characteristics of both a corporation and a partnership. At least two but not more than 25 members are required to form an S. de R.L. and members are liable only for their subscribed capital. Minimum capital required is \$400, at least half of which must be paid in cash. Fees are the same as for an S.A., but filing and publication of financial statements are not required.

**PARTNERSHIPS**

A Sociedad en Nombre Colectivo is similar to a typical general partnership in the U.S.A. All partners are jointly and severally liable for partnership debts. The consent of all partners is required for the admission of new partners, unless the partnership agreement provides otherwise.

A Sociedad en Comandita Simple is a partnership which contains general and special partners. Only general partners have responsibility for management and they are jointly and severally liable for partnership debts. Special partners are liable only for their respective contributions. The partnership name may not include the names of special partners.

**OTHER ENTITIES**

A Sociedad Cooperativa is a non-profit membership cooperative organization. Formation requires at least ten members who work with or consume the products dealt in by the cooperative. Capital is variable, and members' liability is limited to the amount of their capital contributions.

A branch may be registered in Mexico but the following disadvantages make this form of operation unsuitable for most United States corporations:

1. A branch is taxable for both income tax and dividend tax purposes even though earnings may not be distributed.
2. Dividends received from investments in Mexico are includable in the branch's taxable income; in most cases this is not true for corporations.
3. Branches encounter far more difficulty in obtaining tax incentives and exemptions.
4. A branch may not deduct payments to the home office for royalties, technical assistance, fees, and similar services.

**LABOR CONDITIONS****UNIONISM**

Between 1 1/2 and 2 million employees, of an estimated labor force of 15 1/2 million, belong to unions. The right to strike is not automatic, but requires government approval. Unresolved labor disputes must be submitted to a board of conciliation and arbitration. The terms of a union contract apply to an entire working force, including those who are not union members. Unions are more influential in national politics than is suggested by their membership because 1/3 of the seats in the National Council of the PRI are allocated to labor leaders.

**WORKING HOURS**

The maximum work week, beyond which overtime must be paid, consists of six eight hour days. The actual average work week is 45 hours. Legally required vacations start with six days after one year's employment and increase at the rate of two days per year up to a twelve day maximum vacation. Unions, however, usually demand and receive more than the minimum vacation period. Women must receive twelve days paid vacation annually, and they are also entitled to maternity leaves.

**WAGE RATES**

Mexican labor law requires that workers be paid for one day of rest for each six days of work. Therefore, the daily minimum wage must be multiplied by seven to determine the weekly wage, although evasion in rural areas is not uncommon. Mexico is divided into 111 zones for the purpose of establishing local minimum wage rates. The highest minimum wage rate zone is Baja, California which is \$3.00 per day. Other zones range downward to about \$1.25 a day in the poorest zones. Wage rates in unionized industries are above the legal minimums.

**BENEFITS**

Mexico has advanced social security programs covering old age, disability, sickness, death, and injuries. These are paid for as follows:

Employers –	8.6% to 14.9% of payroll
Employees –	3.75% of compensation
Government –	40% of the employers share of all programs except accident insurance.

The maximum social security wage base is 80 pesos per day (U.S.A. \$6.40). Employers also pay a 1% payroll tax.

A profit sharing law is in effect under which employers must distribute a portion of profits to their employees. A complex formula is used to determine the employees' share of profits, but it generally works out to somewhere between 2.8% to 12.6% of after-tax profit.

Employees are considered to have a vested interest in their jobs after a 30 day probationary period. A permanent employee who is discharged without justification is entitled to three months wages plus an additional 20 days wages for each year of service.

**TARIFFS**

Since Mexico is attempting rapid industrialization, its tariff policies are designed to foster local industries, to protect them from foreign competition, and to encourage exports.

Mexico taxes most imports in two ways: duties are levied in pesos per unit of weight and volume, plus an ad valorem tax on invoice value or the official valuation, whichever is higher. Ad valorem duties are usually very high on products that are produced locally and may be virtually prohibitive on some luxury items. On the other hand, essential raw materials, certain drugs and chemicals, and other needed items may be exempt.

Goods for which import licenses are required constitute about 65% of the value of all imports. For such goods, the importer must obtain a permit from the Ministry of Industry and Commerce before ordering the goods. Special reduced duties are applied to imports of machinery and equipment not produced in Mexico, and value quotas may be obtained by firms whose exports equal their imports and, thus, do not impair Mexico's foreign reserves.

Mexico is a member of the Latin American Free Trade Association (LAFTA) and tariffs and other barriers on several thousand items included in the LAFTA list have been eliminated or reduced. Since 1965, Mexico's tariff schedules have used the Brussels nomenclature. The wholesale bribing of customs officials, once fairly prevalent, has all but disappeared.

**CURRENCY AND CURRENCY CONTROLS**

The basic unit of currency is the peso, which consists of 100 centavos. The present exchange rate is 12.5 pesos = U.S. \$1, the rate that has prevailed since April 1954. There are no barriers to



the transfer of currency. The peso is freely convertible and dollars can be purchased on the open market. There are no controls over payments for imports.

## BUSINESS PRACTICES AND CUSTOMS

### WEIGHTS AND MEASURES

The metric system is the official system of weights and measures.

### BUSINESS HOLIDAYS

The following includes legal and other business holidays.

January 1	New Year's Day
February 5	Promulgation of the Constitution
March 21	Birthday of Don Benito Juarez
March (variable)	Holy Thursday, Good Friday, Holy Saturday
May 1	Labor Day
May 5	Victory of General Zaragoza
September 16	Independence Day
October 12	Columbus Day
November 2	Day of Remembrance of the Dead
November 20	Anniversary of the Revolution
December 12	Guadalupe Day
December 25	Christmas

### BUSINESS CUSTOMS

1. Most receivables are collected by employees who personally visit debtors. Upon receiving the amounts due, the collectors furnish a signed copy of the invoice as a receipt. Without such receipts, collections would be difficult if not impossible; few debts are paid through the mails. Invoices for utilities are often collected by banks.

2. Notes are a common method of financing transactions. Discounting of notes receivable is also common, but can be accomplished only under certain conditions and by authorized institutions.

3. Banks furnish periodic statements and record check numbers on their statements instead of returning cancelled checks. Banking hours are from 9:00 a.m. to 1:00 p.m. daily, and from 9:00 a.m. to 12:30 p.m. on Saturday.

4. Many businesses close between 1:30 and 3:00 p.m. when employees return to their homes for lunch, and reopen between 3:00 and 4:00 p.m. for another three to four hours until 6:30 or 7:00 p.m.

**ACCOUNTING AND AUDITING****LEGAL REQUIREMENTS**

Before the National Commission of Securities approves a registration of securities on a stock exchange, an audit by a certified public accountant is required. Similarly, companies undertaking bond issues are required to publish a certified balance sheet.

Article 85 of the Federal Tax Code affords recognition to audits of a taxpayer's financial statements and tax returns if the following requirements are met:

1. The certifying public accountant is registered in the Federal Treasury Department. Registration is granted to Mexican citizens whose title is registered in the Department of Public Education and who are members of a certified national association recognized by that Department.

2. The auditor's opinion for financial statement purposes is the same as a U.S.A. opinion, except that the auditor must state whether the applicable sales tax regulations have been followed. But for income tax purposes, the opinion which is filed with the Treasury Department must also state if the client has complied with the applicable income tax regulations.

Audited tax returns are less likely to be examined by tax authorities, although the Treasury Department retains the right to review all returns and make selective tests of returns.

**Specific journals and ledgers.** Legislation requires that each company maintain a journal, general ledger, and inventory and balance book. Mercantile enterprises that issue securities must also record the minutes of stockholders' and boards of directors' meetings. The Mexican income tax law requires maintenance of other records such as sales and purchase journals. These books of account must be written in Spanish and in pesos and be "legalized" by presentment to a tax collection office. However, there is no provision against keeping duplicate records in another language and currency.

**APPOINTMENT OF AUDITORS**

Mexican practice and ethical requirements in appointing auditors or in changing auditors are similar to those in the U.S.A. The previous accounting firm has the right to be informed of a client's decision, and may object to such a decision, depending on the circumstances.

**ACCOUNTING PRINCIPLES AND AUDITING STANDARDS**

Auditing standards and practices in Mexico are similar to those in the U.S.A. It is standard procedure to confirm bank balances and receivables and to observe physical inventories. There are some differences from U.S.A. practices due to different conditions. For example, since banks do not return cancelled checks, more testing of the documentary support for disbursements is required than in the U.S.A.

It is not customary to prepare consolidated financial statements but rather to publish separate

parent and subsidiary company statements. The concept of pooling of interests is not followed in Mexico. The treatment of inventories is similar to U.S.A. practice except for the income tax requirement that inventories not be valued below cost without prior approval.

Since 1962 Mexican income tax law has permitted fixed tangible assets to be revalued and depreciation based upon the appraised value, provided that the writeup is based on the findings of a recognized appraiser, and a tax is paid on the amount of the writeup. It is customary to indicate the amount above original cost at which fixed assets are carried.

It is a generally accepted procedure to charge income for accrued liabilities for severance pay in accordance with provisions of the labor law.

### **FINANCIAL STATEMENT PRESENTATION**

---

The general arrangement of financial statements is similar to U.S.A. formats. The following are the Spanish titles of the principal financial statements:

Balance Sheet	Balance General
Income Statement	Estado de Resultados de Operacion
Statement of Retained Earnings	Estado de Utilidades Acumuladas
Statement of Source and Application of Funds	Estado de Origen y Aplicacion de Recursos

The balance sheet and the income statement presented on the following pages are in Spanish with the English equivalent for each term shown parenthetically.

**COMPANIA INDUSTRIAL X, S.A. DE C.V.  
BALANCE GENERAL  
31 DE DICIEMBRE DE 19X8**

**ACTIVO  
(ASSETS)**

**ACTIVO CIRCULANTE: (CURRENT ASSETS)**

Efectivo (Cash)  
Valores Negociables - Al Costo Aproximadamente Igual Al Precio De Mercado  
(Marketable Securities - At Cost Approximately Equal to Market)  
Documentos Y Cuentas Por Cobrar: (Notes and Accounts Receivable)  
    Documentos Por Cobrar (Trade Notes)  
    Clientes (Trade Accounts)  
    Funcionarios Y Empleados (Officers and Employees)  
Inventarios - Al Mas Bajo De Costo O Mercado:  
(Inventories - At The Lower of Cost or Market)  
    Productos Terminados (Finished Goods)  
    Produccion En Proceso (Work in Process)  
    Materias Primas (Raw Materials)

**SUMA EL ACTIVO CIRCULANTE (TOTAL CURRENT ASSETS)**

**PROPIEDAD, PLANTA Y EQUIPO - Al Costo, Menos Depreciacion Acumulada:  
(PROPERTY, PLANT AND EQUIPMENT - At Cost, Less Accumulated Depreciation)**

Maquinaria Y Equipo (Machinery And Equipment)  
Muebles Y Enseres (Furniture And Fixtures)  
Vehiculos (Transportation Equipment)  
  
Menos Depreciacion Acumulada (Less Accumulated Depreciation)  
Maquinaria En Transito (Machinery In Transit)  
Terreno (Land)  
Construccion En Proceso (Construction in Process)

**CARGOS DIFERIDOS - Menos Amortizacion Acumulada  
(DEFERRED CHARGES - Less Accumulated Amortization)**

Patentes - Menos Amortizacion Acumulada  
(Patents - Less Accumulated Amortization)  
Gastos De Organizacion-Menos Amortizacion Acumulada  
(Organization Expenses-Less Accumulated Amortization)

**SUMA EL ACTIVO (TOTAL ASSETS)**

**PASIVO E INVERSION DE LOS ACCIONISTAS  
(LIABILITIES AND STOCKHOLDERS' EQUITY)**

**PASIVO CIRCULANTE: (CURRENT LIABILITIES)**

Documentos Y Cuentas Por Pagar: (Notes And Accounts Payable)  
Documentos Por Pagar A Proveedores (Notes Payable - Trade)  
Proveedores (Accounts Payable - Trade)  
Gastos Acumulados Por Pagar (Accrued Expenses)  
Otras Cuentas Por Pagar (Other Accounts Payable)

**SUMA EL PASIVO CIRCULANTE (TOTAL CURRENT LIABILITIES)**

**CUENTAS POR PAGAR A LARGO PLAZO  
(NOTES PAYABLE MATURING OVER ONE YEAR)**

**CREDITOS DIFERIDOS: (DEFERRED CREDITS)**

Intereses Cobrados Por Anticipado (Interest Collected in Advance)

**PASIVO CONTINGENTE (CONTINGENT LIABILITIES)**

**INVERSION DE LOS ACCIONISTAS: (STOCKHOLDERS' EQUITY)**

Capital Social (Capital Stock)  
Capital Social Fijo, Representado Por 250 Acciones Comunes, Serie A,  
Con Valor De \$100.00 Cada Una  
(Fixed Capital Stock Represented By 250 Common, Registered Shares, Series A,  
With A Par Value Of \$100.00 Each)  
Capital Social Variable, Representado Por 20,250 Acciones Comunes, Serie B,  
Con Valor De \$100.00 Cada Una  
(Variable Capital Stock Represented By 20,250 Common, Registered Shares,  
Series B, With A Par Value Of \$100.00 Each)  
Utilidades Acumuladas (Retained Earnings)

**SUMA EL PASIVO Y CAPITAL (TOTAL LIABILITIES AND CAPITAL)**

Veanse notas a los estados financieros  
(See notes to financial statements)

**COMPANIA INDUSTRIAL X, S.A. DE C.V.**  
**ESTADO DE RESULTADOS DE OPERACION y de UTILIDADES ACUMULADAS**  
**AÑO QUE TERMINO EL 31 DE DICIEMBRE DE 19X8**

**INGRESOS: (REVENUES)**

Ventas Netas (Net Sales)  
Intereses Ganados (Interest Earned)  
Otros Ingresos (Other Income)

**COSTOS Y GASTOS: (COSTS AND EXPENSES)**

Costo De Ventas (Cost of Sales)  
Gastos De Venta (Sales Expenses)  
Gastos De Administracion (Administrative Expenses)  
Gastos Generales (General Expenses)

**UTILIDAD ANTES DE IMPUESTO SOBRE LA RENTA Y PARTICIPACION**  
**(EARNINGS BEFORE INCOME TAX AND PROFIT SHARING)**

**IMPUESTO SOBRE LA RENTA (INCOME TAX)**

**PARTICIPACION DE LOS TRABAJADORES EN LAS UTILIDADES**  
**(PROFIT SHARING TO PERSONNEL)**

**UTILIDAD NETA (NET EARNINGS)**

Utilidades acumuladas, al 1 de enero de 19X8  
(Retained earnings, January 1, 19X8)

Utilidades acumuladas, al 31 de Diciembre de 19X8  
(Retained earnings, December 31, 19X8)

VEANSE NOTAS A LOS ESTADOS FINANCIEROS  
(SEE NOTES TO FINANCIAL STATEMENTS)

**TAX STRUCTURE****INCOME TAXES - CORPORATE**

Corporations domiciled in Mexico are subject to tax on their income from all sources. Corporations not domiciled in Mexico are subject to tax on income derived from sources of wealth situated in Mexico or transactions effected in Mexico. Corporations are taxed at rates ranging from 5% to a maximum of 42% on taxable income in excess of 500,000 pesos (\$40,000).

An annual tax return must be filed and the tax paid within three months after the close of the company's taxable year. Estimated tax payments are required by the fifteenth day of the fifth, ninth, and twelfth months of the current year.

There is no tax treaty between the U.S.A. and Mexico.

Gains from the sale of machinery and equipment are taxed at ordinary rates. A gain from the sale of real property which forms part of the fixed assets of a business is exempt from corporate income tax if the asset has been held for more than 10 years or if the proceeds of the sale are reinvested within one year of a sale. Otherwise, a certain percentage of the gain, depending on the holding period, will be included in ordinary business income.

Dividends received by one Mexican company from another Mexican company are entirely exempt from tax provided the dividend recipient's investment in shares represents 55% or less of its own total net worth; if the corporate recipient's investment exceeds 55% of its own net worth, the dividends are taxed according to the rates established by the tax on income from capital investments:

Up to 180,000 pesos (\$14,400) – 15%
180,000 to 270,000 – 17.5%
Over 270,000 (\$21,600) – 20%

Dividends paid by a Mexican company to a foreign corporation are subject to withholding at the above rates.

Corporations are allowed the usual deductions in arriving at taxable income.

There is no loss carryback; however, losses incurred after December 31, 1964 may be carried forward for five years.

Interest paid on loans from foreign banks and other foreign entities (if the Treasury considers the loan to be in the general public interest) is subject to a withholding tax of 10%. Otherwise, interest is subject to withholding tax on a cumulative basis at the rates applicable to individual taxpayers taxed on the basis of "Tax on the Income of Individuals".

Royalties paid to foreign corporations for the use of patents or trademarks in Mexico are subject to withholding tax at the applicable progressive rate applied to the gross amount. On the other hand, technical service fees paid to foreign corporations are subject to a flat withholding rate of 20%.

Branches of foreign corporations are subject to a withholding tax ranging from 15% to 20% on income earned by the branch after deduction of the corporate income tax. This withholding tax is payable by the branch whether or not profits are actually remitted to the home office.

Maximum depreciation rates – such as 5% for buildings, 10% for machinery and equipment, and 20% for vehicles – are specified in the income tax law. Higher depreciation rates may be allowed on request of the taxpayer and approval by the Ministry of Finance. If higher rates are allowed, the book rates and methods used must produce results at least as great as the tax rates or methods; thus, depreciation for tax purposes cannot exceed book depreciation.

Inventories may be priced at the lower of cost or market; however, market refers to net realizable value rather than replacement cost. Any inventory write-offs, such as for obsolescence, must be approved in advance and the goods must be physically set aside for scrapping or other disposal. Any inventory write-down to market must also be approved in advance by the tax authorities.

## **INCOME TAXES – INDIVIDUAL**

Individuals domiciled in Mexico are subject to tax on their income from all sources. Individuals not domiciled in Mexico are subject to tax on income derived from sources of wealth situated in, or transactions effected in, Mexico.

Individual taxpayers in Mexico are taxed under two separate systems: (1) the “Tax on the Income of Individuals” which consists of two separate taxes (one on income from personal services and one on income from capital investments) and (2) the “Tax on the Global Income of Individuals” which is imposed on basically the same sources of income. The two systems differ in their rates of tax and the available deductions. The Global tax rates are higher but more deductions are available.

Which tax system an individual uses depends on his net income, as follows:

Net Income	Tax System
Less than 50,000 pesos (\$4,000)	“Tax on the Income of Individuals”, with separate computation of income from personal services and income from capital investments.
More than 100,000 pesos (\$8,000)	“Tax on Global Income”
Between 50,000 and 100,000 pesos	Either method at taxpayer’s election.

Once an election is made to file under the “Tax on Global Income”, the election is binding for future years unless taxpayer’s income falls below the minimum amount. Tax rates range from 3.88% to 35% for the “Tax on the Income of Individuals” and from 13% to 35% for the “Tax on Global Income”

### **INCOME FROM PERSONAL SERVICES**

Income from personal services includes salaries, commissions (when recipient is an employee), profit sharing distributions, professional fees of self employed individuals, and the like. It does not include payments for social welfare and disability pensions which are exempt or severance payments which are taxed according to a special formula, or other exemptions.

In arriving at taxable income from personal services, different formulas apply depending on whether the individual is (a) an employee or (b) self employed.

(a) Individuals receiving compensation as employees cannot deduct any expenses. However, they are subject to tax on only 80% of their income up to 150,000 pesos (\$12,000) and on 100% of their income in excess of that amount.



(b) Self-employed individuals may either deduct normal operating expenses or take a standard deduction of 20% of gross income in lieu of such expenses. The balance is subject to tax in the same manner as an employee (80% of taxable income up to 150,000 pesos and 100% on income in excess of that amount). In lieu of these deductions, certain categories of taxpayers (athletes and performers) deduct specified percentages of income fixed by law.

In the case of employees, tax is withheld by the employer. Self-employed individuals make payments of estimated taxes. An annual return is filed, and any balance of tax is paid before April 30 following the calendar year in which the income was received.

### **INCOME FROM CAPITAL INVESTMENTS**

Income from capital investments includes certain interest, dividends from foreign entities, and income from other types of investments not specifically exempt under the law.

Ordinarily, interest income and dividends from foreign companies are added to taxable income and the tax rates applicable to "Tax on the Income of Individuals" are applied. Varying percentages of capital gains are taxed, depending on how long the assets have been held, at the same rates as "Tax on the Income of Individuals"; each gain is determined and taxed separately.

The tax on dividends from Mexican entities is withheld at the source, and applied against the tax on income from capital investments, ranging from 15% to 20%.

### **TAX ON GLOBAL INCOME**

Individuals whose taxable incomes are over \$8,000 must file under the Global basis, and are allowed further exemptions and deductions before computing their tax liability. Such an individual may take a personal exemption of 6,000 pesos (\$480) for himself, 3,000 pesos (\$240) for his spouse, and 1,500 pesos (\$120) for each relative that he supports. He is also entitled to certain deductions for medical and dental expenses, insurance premiums, charitable contributions, and federal and local taxes. In lieu of itemizing deductions, a standard deduction of 10% of adjusted income (after personal exemptions) or 20,000 pesos (\$1,600), whichever is less, may be taken.

### **MISCELLANEOUS TAXES**

The gross receipts tax (sometimes called mercantile tax) is a sales tax payable on receipts from the sale or other disposition of property; the leasing of property (other than land or buildings); the rendering of services, commissions, royalties, and technical assistance fees. The tax is computed on gross receipts at a rate of 3% (1.8% federal tax and 1.2% state tax which is currently payable in most states as well as the Federal District.)

Foreign corporations and individuals domiciled abroad are subject to the gross receipts tax for services rendered or goods sold within Mexico. When technical assistance fees and royalties are paid by Mexican companies to foreign corporations, the tax must be withheld and remitted to the Government by the Mexican payor.

Mexico also levies small stamp taxes on documents, contracts, and other transactions. There are certain state inheritance taxes on estates (no federal and few state estate taxes exist). Other state taxes vary widely, and municipalities levy a variety of dues or fees for the rendering of municipal services.

**NOTES**

The information contained here was prepared primarily for Touche Ross personnel. It is offered to clients who may be interested in a brief, overall look at some pertinent data about this country. The information is not designed to answer specific business questions for which reference to original source data and professional consultation may be required.