This report provides helpful information on the current business environment in Mexico. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

Report on Mexico

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RBC Royal Bank®



Important to Know

Official language

> Spanish

Currency

> Peso (MXN)

Bank holidays

2010	
January	1
February	1
March	15
April	1-3
May	1
September	16
November	2, 15
December	12, 25

Source: www.goodbusinessday.com.

Types of Business Structure

Under Mexican law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established. The two most common forms are the SA and S de RL. Any entity can be established as a *Capital Variable* (CV) which allows fluctuations in a company's capital without notary certification. The suffix CV must then be added to a company name (e.g., SA de CV).

Public limited liability company

SA (*Sociedad Anónima*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum share capital of MXN 50,000, 20% of which must be paid up at the time of formation and the remainder within one year.

Private limited liability company

S de RL (*Sociedad de Responsabilidad Limitada*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires a minimum share capital of MXN 3,000 (but no more than MXN 50,000), of which 50% must be paid up upon formation of the company.

General partnership

SNC (*Sociedad en Nombre Colectivo*). In a general partnership, all partners have full and joint liability.

Limited partnership

SCS (*Sociedad en Comandita Simple*). In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. If it is established as a variable capital company, the minimum capital cannot be less than one-fifth of the initial capital.

Partnership limited by shares

SCA (*Sociedad en Comandita por Acciones*). A partnership limited by shares allows some partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while general partners are fully liable. The shareholders can sell their shares to third parties, but only with the consent of all general partners and two-thirds of the limited partners. The requirements are the same as for an SA.

Cooperatives

Two types of cooperatives (*cooperativas*) are recognized in Mexican law, one with a limited liability regime, where obligations are limited to the amount of its share certificates, and another with supplemented liability, where the partners may be liable for an amount greater than the value of the share certificates. Generally, a minimum of five partners is necessary to form a cooperative, which must be of variable capital. Cooperatives are governed by the General Law of Cooperative Societies 1994.

Other organizational types

Sociedad anonima bursatil (SAB) is a Mexican public limited company listed on the Mexican Stock Exchange (Bolsa Mexicana de Valores), which is governed by the new Securities Market Law.

Asociación en participación (AP) is an agreement between partners in which one or more exchanges goods or services for the right to participate in the profits of a commercial operation. This is not a separate legal entity.

Branches and representative offices

Non-Mexican companies are entitled to establish a branch or a representative office in Mexico. A branch's activities are subject to Mexican company law, although it is considered part of the company's head office and therefore not a separate legal entity. To open a branch a company must file a number of documents. Branches are not permitted to own real estate. While branches are permitted to make sales, representative offices may not sell directly in Mexico.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must have its place of effective management in Mexico.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (MXN) accounts outside Mexico as well as foreign currency accounts outside Mexico. However, only resident companies or companies established in Mexico, as well as residents in the northern border area, Baja California and Baja California Sur, are allowed to hold foreign exchange demand deposits domestically.

Non-residents are permitted to hold local currency and foreign currency accounts in Mexico, though foreign currency accounts need to be registered with the appropriate Mexican authority.

Local currency accounts are not convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

Account opening procedures require formal identification of the account holder. Beneficial ownership and the control structure of legal entities must also be established. Measures put into place in 2004 require that financial institutions classify customers according to their level of risk and that customer identification information must be kept up to date.

- > Customer identification policies must be strictly applied in cases of correspondent accounts opened for banks in jurisdictions classified as Non-Cooperative Countries and Territories (NCCTs) by the Financial Action Task Force (FATF). Accounts cannot be opened for financial institutions or intermediaries that do not have a physical presence in any jurisdiction.
- > Anonymous accounts are not permitted.
- All credit and financial institutions have to identify clients for transactions exceeding USD 10,000. Identification is also required for occasional customers for transactions exceeding USD 3,000.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at May 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under Mexican law, *impuesto del valor agregado* (IVA) is levied on the sale of goods and services at a rate of 15%, with a reduced rate of 10% in border zones. Bank charges and credit interest are subject to IVA. Mortgage interest payments are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for domestic cashless payments by value. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers (TEFs — *transferencias electronicas de fondos*) are the primary payment method used to make payroll payments, although payroll cards are also a popular means for paying wages. Non-urgent credit transfers are also the most common method of payment for business-to-business transactions among large companies, while smaller companies tend to use cheques. Card payments are the most frequently used form of cashless payment by volume in Mexico. Card payments are commonly used for consumer transactions, with debit cards much more popular than credit cards. Pre-authorized direct debits (DOMIs — *domiciliacion de recibos*) are used primarily by utility and insurance companies to collect one-off or recurring domestic payments. Cheque use has been declining in recent years, but is still an important payment instrument in Mexico along with cash.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change	Traffic (value) (MXN billion)		% change
	2007	2008	2008/2007	2007	2008	2008/2007
Cheques	158.9	148.1	- 6.8	3,341.4	3,330.9	- 0.3
Credit transfers:	50.1	68.2	36.1	152,931.0	165,964.8	8.5
High-value	29.5	41.7	41.4	135,395.0	144,456.7	6.7
Low-value	20.6	26.5	28.6	17,536.0	21,508.1	22.7
Direct debits	6.8	8.4	23.5	20.4	26.2	28.4
Debit/credit card payments	1,919.8	2,079.3	8.3	2,012.6	2,225.0	10.6
Total	2,135.6	2,304.0	7.9	158,305.4	171,546.9	8.4

Source: Banco de México April 2009.

International Payments

International payments are processed by using traditional correspondent banking techniques and are usually routed through SWIFT.

Credit payments from a US company or individual to a Mexican beneficiary can be made through the US FedACH Directo a México service, with funds available in MXN on a next-day basis.

Interbank cross-border payments can be made via the Banco de México, which participates in the multilateral clearing system of the Latin American Integration Association (LAIA).

Payment Processing Times

Transactions processed (MXN-denominated)	Value dating rules	Cut-off time(s) in local Central Time (CST)
High-value and urgent domestic transfers	Settlement in real time with immediate finality	16:30 CST
Non-urgent, low-value domestic consumer payments	Payments are settled on a next-day basis	There are rolling cut-off times for different types of transactions:
		Cheques = 13:00 CST
		TEFs = 20:30 CST

Central Bank Reporting

The Banco de México (Banxico) does not require reporting for balance of payments statistics.

Exchange Arrangements and Controls

Mexico does not apply currency exchange controls.

Foreign majority ownership of Mexican companies is not allowed for certain sectors such as agriculture, fishing, fuel supply and media, and is subject to government approval in other areas, such as banks and financial services companies.

The National Foreign Investment Commission must approve foreign majority ownership in Mexican companies for some areas such as transport and mobile communications, and the government must review foreign majority ownership for Mexican companies valued at more than USD 150 million.

Imports/exports of cash or cheques totalling more than USD 10,000 must be reported to customs.

Cash and Liquidity Management

Mexican companies tend to focus on concentrating their cash on a domestic, rather than international, basis.

Physical Cash Concentration

Physical cash concentration is widely available from Mexican and international banks. Resident and non-resident companies can participate in the same domestic cash concentration structure. Accounts held by different legal entities can participate in the same structure, though a structure involving only accounts within the same legal entity is standard practice.

Pools can be denominated in local currency (MXN) and USD. Cross-border physical cash concentration is available, but limited to the countries of the North American Free Trade Agreement (NAFTA) – Mexico, Canada and the USA.

Notional Cash Pooling

Notional cash pooling is not permitted in Mexico.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally not available. Instead, funds are usually swept into overnight investment accounts. Banks offer time deposits in MXN and USD but these are not popular short-term investments. Banks also issue certificates of deposit (CEDES), usually for terms up to a year, although discounted promissory notes (*pagarés*) are more popular as short-term investments.

Non-bank instruments

Some highly rated and non-bank financial institutions issue commercial paper, although this does not generally make for an appealing short-term investment due to liquidity issues.

Banxico issues Treasury bills (*certificados de tesoreria de la federación* – CETEs) for periods of one, three, six and 12 months.

Mexican companies increasingly have access to money market funds.

Short-term Borrowing

Bank

Overdrafts are a generally expensive option for short-term borrowing, but bank lines of credit and bank loans are usually all available in Mexico to both resident and non-resident companies. Banks will usually charge a margin over TIIE (*tasa de interés interbanca de equilibrio*) for MXN-denominated facilities. Other commitment and arrangement fees may also be charged.

Non-bank

Larger, highly rated companies and some non-banking financial institutions issue commercial paper (CP), which must be issued as part of a revolving one-year credit programme. Maturities range from one week to 91 days.

Trade bills are commonly discounted for small exporters and factoring is increasingly available.

Taxation

Corporate Taxation

- Resident companies are subject to taxation on their worldwide income.
- > Non-resident companies are taxed on all income derived through activities in Mexico and on all income originating from Mexico.
- > The federal corporate income tax rate is 28%.
- > Taxes are reduced by 32.14% for companies engaged exclusively in farming, fishing and forestry.
- > There are no state taxes on companies' incomes.
- From 2008, asset tax has been replaced by "flat tax". Flat tax is essentially a tax on income instead of assets, in addition to the regular income tax. This new tax will be computed on a

cash flow basis by applying the applicable rate to the tax basis, determined by subtracting from the taxable revenues (sale of goods, rendering of independent services and granting of the temporary use or enjoyment of goods) allowable deductions related to such revenues. The applicable rates for flat tax are 16.5% for 2008, 17% for 2009 and 17.5% from 2010 onwards. Flat tax is payable only to the extent it is higher than regular corporate income tax.

> Operating losses cannot be carried back, but may be carried forward up to ten years.

Advance Tax Ruling Availability

> Mexican taxpayers may apply for advance pricing agreements from the tax authorities.

Withholding Tax (subject to tax treaties and other exemptions)

- > Mexico has tax treaties with various countries. Different rates of withholding tax can apply on interest, dividends and royalties, depending on the terms of the agreement with the particular country.
- > Dividends to residents and non-residents are not taxed if paid out of post-tax earnings and the company has sufficient "net tax profits" (CUFIN) to cover the dividend. If not, dividends are taxed at the corporate tax rate, grossed up by a 1.3889 factor.

Capital Gains Tax

- > Capital gains and losses are subject to normal corporate income tax. The gain or loss is calculated as the difference between the sale price and cost of the asset.
- > Proceeds from the sale of real estate, shares and fixed assets can be inflation linked. Flat tax applies to the sale of any goods, but since the related purchase is generally deductible at the moment of acquisition, the sales income would be fully taxable.

Thin Capitalization

 In general terms, interest corresponding to foreign related-party debt that exceeds a 3:1 ratio on capital is non-deductible.

Transfer Pricing

> Taxable income and allowable expenses must be based on arm's length values.

Supporting documentation must be maintained for all transactions conducted with related parties, both domestic and outside Mexico.

Sales Taxes / VAT

- VAT is levied on the sale of goods and provision of services (performed in Mexico), including lease payments and imports. The general VAT rate is 15%.
- > Certain products (e.g., basic foods, pharmaceuticals, books and newspapers) and services (agricultural, hotel and public utility services) are zero-rated, as are exported goods. In border zones, a reduced rate of 10% applies. Bank interest, credit instalments, medical services, education and rental income from residential property are exempt from VAT.
- > Excise tax is levied on certain goods such as gasoline, alcohol and tobacco.

Payroll and Social Security Taxes

Social security contributions are as follows (approximate percentages applicable to the employees' salaries):

Category	Employer	Employee
Sickness and maternity	24.250%	1.105%
Disability	1.750%	0.625%
Retirement/redundancy	5.150%	1.125%

- > Employers contribute 5% of employees' salaries and wages to the National Workers' Housing Institute.
- > Employers pay a premium based on employees' salaries and wages for occupational risks. This varies with the level of risk associated with a job, from 0.54% for office workers to 7.5% in heavy industry.
- > Businesses have to distribute a portion of their annual profits among all of their employees. This is usually 10% of taxable income.

Tax on Cash Deposits

> Effective July 1, 2008, the government in Mexico instituted a new financial transaction tax of 2% on the excess of cash deposits made of MXN 25,000 or more per month. The new tax is called the IDE (*Impuesto a las Depósitos en Efectivo*).

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at March 1, 2009.

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