MEXICO NOW

Mexico's Auto Industry Conference

Industry Analysis - Opportunities for Suppliers

Puebla, MX
December 4-5, 2013

BAKER & MCKENZIE

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Customs Law Reform 2014

Relevant Changes

General Objective

- Provide mechanisms to improve the procedures to facilitate international trade
  - ✓ Better control at the entrance and exit of goods into a from national territory.

- Promote innovation and modernization of customs operations
  - ✓ Infrastructure investments
  - ✓ Incorporation of best practices in customs matters
  - ✓ Non-intrusive technologies for customs clearance

Relevant changes to the Customs Law

Relevant Changes

- Implementation of a customs electronic system
- Optional use of **Customs Broker**
- Repeal of in-house customs broker, creates **legal representative for customs clearance** – Special requirements
- Repeals substitute customs broker
- Promotes inspections with non-intrusive technologies

Relevant Changes

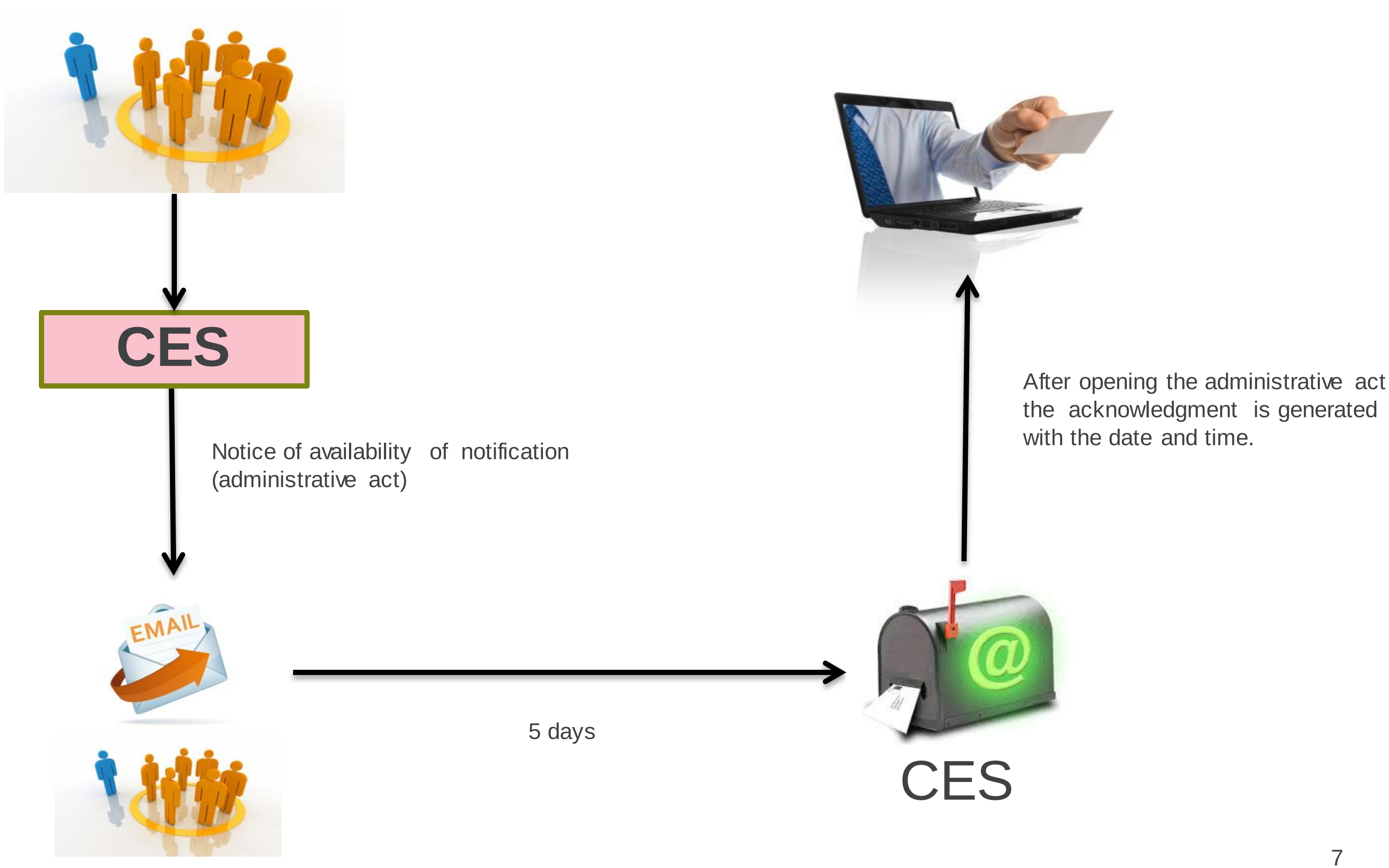
- Rectification of any field of the pedimento (customs declaration):

- Change of customs regime without previous authorization

- Spontaneous regularization of goods without the payment of fines

- 50% reduction in formal fines, provided the payment is made before the final resolution

Electronic Notifications (personal)



Tax Reform 2014

Relevant Changes

VAT

Tax Reform – VAT

- The VAT on the border regions is increased from 11% to 16%.
- Imposes VAT on temporary imports from maquiladora companies, bonded warehouse, tax precincts and strategic tax precincts;
  - ✓ Maquiladoras may be certified to obtain a special credit to avoid the need to pay VAT upon temporary importation. Alternatively, they may post a bond.
- Preserves VAT exemption on sales between non-Mexican residents
- Subjects to VAT the sale from a non-Mexican resident to a maquiladora company (WHT VAT, would it be creditable?).

VAT in temporary importations

- New VAT in temporary importations
- Relevance customs value
- Valuation methods:
  - ✓ *Transaction*
  - ✓ *Identical Goods*
  - ✓ *Similar Goods*
  - ✓ *Unit Selling Price*
  - ✓ *Reconstructed Value*
  - ✓ *Determined Value (other methods)*

Income Tax

Maquila Operation Concept

CURRENT	TAX REFORM
I. Inventories • Owned by foreign resident • Temporarily imported • Return abroad, including virtually	I. Inventories • (Same) • (Same) • (Same)
II. Transformation or repair activities • Of temporarily imported inventories	II. Transformation or repair activities • (Same)
III. M&E • At least 30% owned by foreign resident • Not previously owned by maquiladora or Mexican related party • Grandfather provision (12/31/2009)	III. M&E • (Same) • (Same) • No grandfather provision
IV. Invoicing requirement • No specific requiremetns for PE exemption	IV. Invoicing/performance requirement • All productive income shall derive from the maquila operation

Tax Reform – Income Tax

- Incorporates the definition of "maquila operation" for purposes of providing a permanent establishment protection.
- Limits the deduction of exempt payments to employees and pension fund contributions (53%-47%).
- Harmonizes the base to calculate the profit sharing with the taxable base for purposes of the corporate income tax (allowing the reduction of non-deductible portion of fringe benefits).
- Eliminates the obligation of statutorily audited financial reports (dictamen fiscal)

Tax Reform – Income Tax

- Creates an additional 10% income tax on the payment of dividends for payments to individuals and non-residents.
- Prohibits the deduction of payments to related parties when they are residents of a preferential tax regime, unless such payments are determined at arm's-length and subject to taxation in their respective tax jurisdiction.
- Prohibits the deduction of payment of royalties, technical assistance or interests made to a foreign entities that controls or is controled by the Mexican payor, if the beneficiary owner is not taxed in the foreign jurisdiction.
- Eliminates the immediate deduction on investments.

Miscelanous matters

Miscelanous Matters

- Repeals the Single Rate Tax Law (IETU)

- New rules on the Tax Code for:
  - ✓ Electronic mailbox
  - ✓ Joint liability of active shareholders and partners
  - ✓ Electronic accounting

¡Thank you!

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