

The Mexican Tax Reform and Other Good News





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The Mexican Tax Reform and Other Good News



Can Mexico be like
Germany, Japan
or the U.S.A?

Inside Mexico's Auto Industry Conference

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**Can Mexico be like
Germany, Japan
or the U.S.A?**



**Culture of
Stewardship**

My Mission

- a. What is the Tax Reform?
- b. The Maquiladora Program
- c. Did the Tax Reform Harm the Manufacturing Industry?
- d. The "Other Good News"
- e. What do you need to do?

Import
Indus

Yes, but why?

- Inexplicable tax system that obtained a low level of public revenue.
- Tax collection levels are equivalent to approximately 9% of Gross Domestic Product (GDP), whereas Latin American countries at that 90's of GDP.
- Public expenditure as a percentage of GDP is only 30 percent compared with an average of 45% in the rest of Latin America.



Why?

The Mexican government has had a limited capacity to:

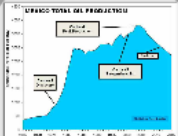
- Meet the priority needs of the population.
- Reduce inequality in income distribution.
- Invest in strategic areas to trigger higher economic growth.
- Create a social security network that effectively guarantees a minimum standard of well-being for all Mexicans.

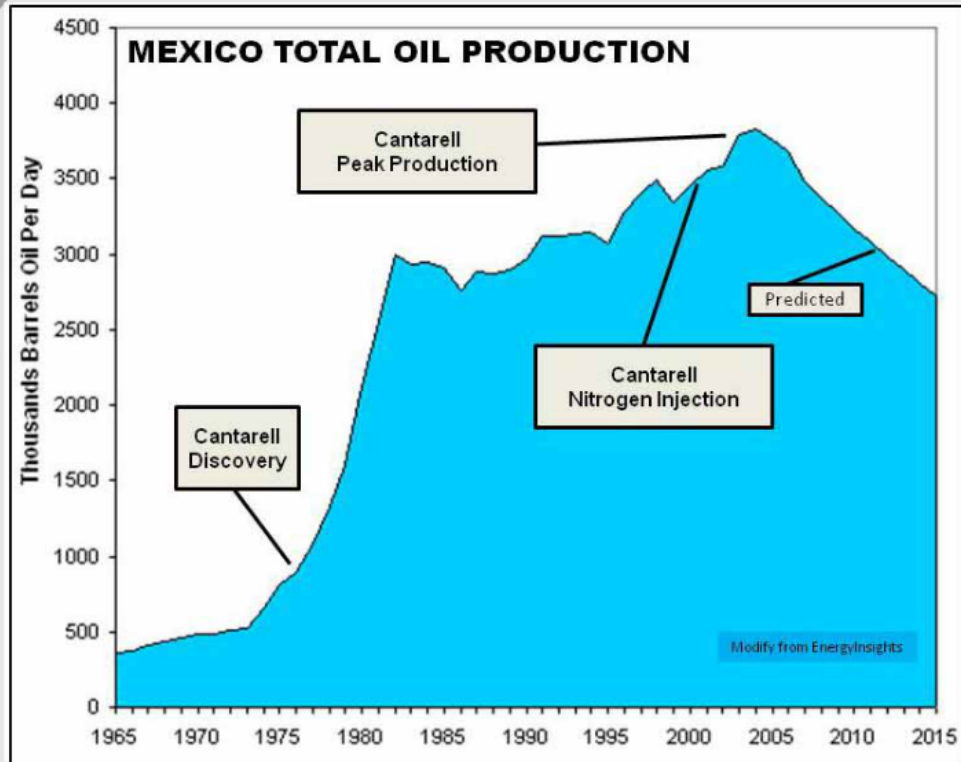
Yes, but why?

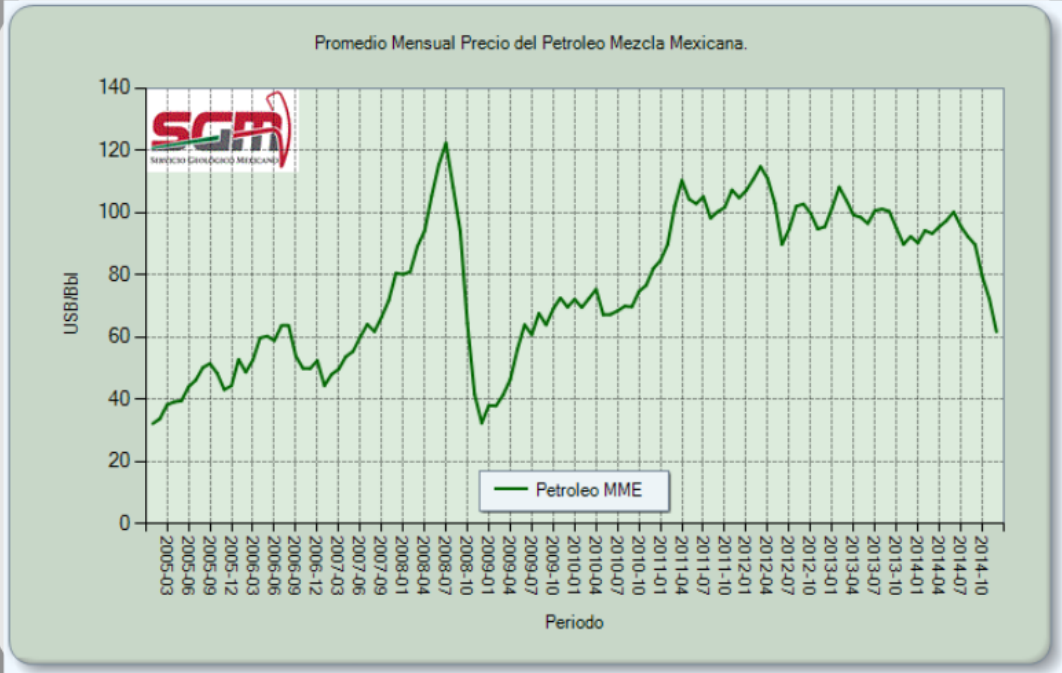
- **Inequitable tax system that obtained a low level of public revenue.**
- **Tax collection levels are equivalent to approximately 10% of Gross Domestic Product (GDP), whereas Latin American countries collect 16% of GDP.**
- **Public expenditure as a percentage of GDP is only 19 percent, compared with an average of 27% in the rest of Latin America.**

Yes, yes, but WHY?!

Dependency on Oil Revenues







Strategic Objectives

- 1 Increase tax collection and ensure that it is fair. The reform seeks to reduce the high levels of inequality among Mexicans by eliminating privileges and ensuring that those with higher incomes pay more taxes and protecting those with least.
- 2 Increase public spending responsibly and fairly. The funds obtained will address the priority needs of the population in areas such as education, health, social security and infrastructure.

Strategic Objectives

- 3 Include control mechanisms to ensure transparency and make public spending more efficient, and promote accountability.
- 4 Boost the economy by encouraging investment and employment. A policy of promoting economic growth is being promoted to complement the Reform, through the use of countercyclical spending.
- 5 Create tax with social responsibility to protect the health of the population and the environment.

Import Substitution Industrialization (ISI)

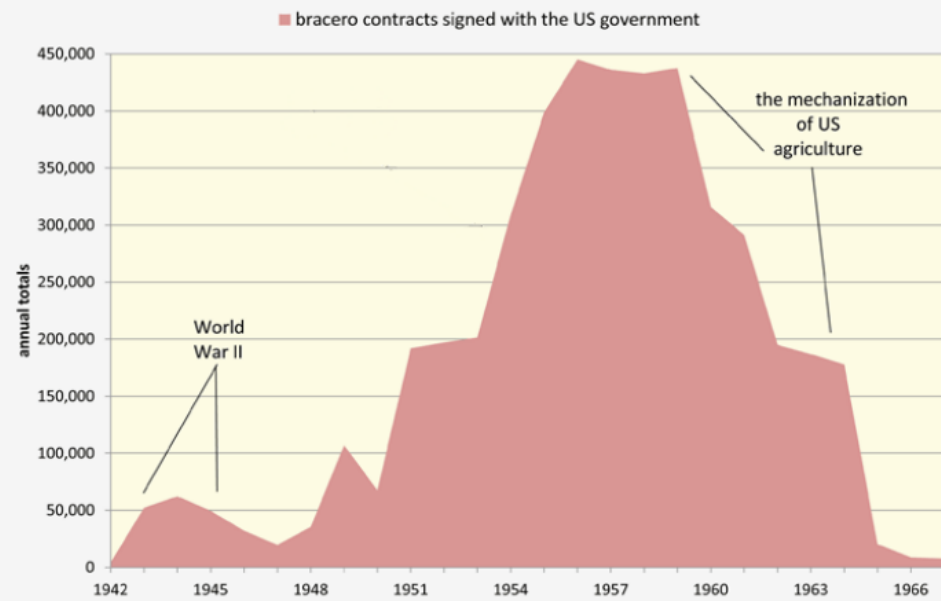
The Bracero Program



The Bracero Program



The Bracero Program, 1942-1967



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**The Original
Maquiladora:
Cost Plus and
Nothing Else**



"Cataclysmic" Tax Events and Their Impact on the Industry

1. Asset Tax 1988
2. Gringo Tax 1994
3. Transfer Pricing 1995
4. NAFTA's Article 303 2001
5. Business Flat Tax 2008

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NAFTA 1994

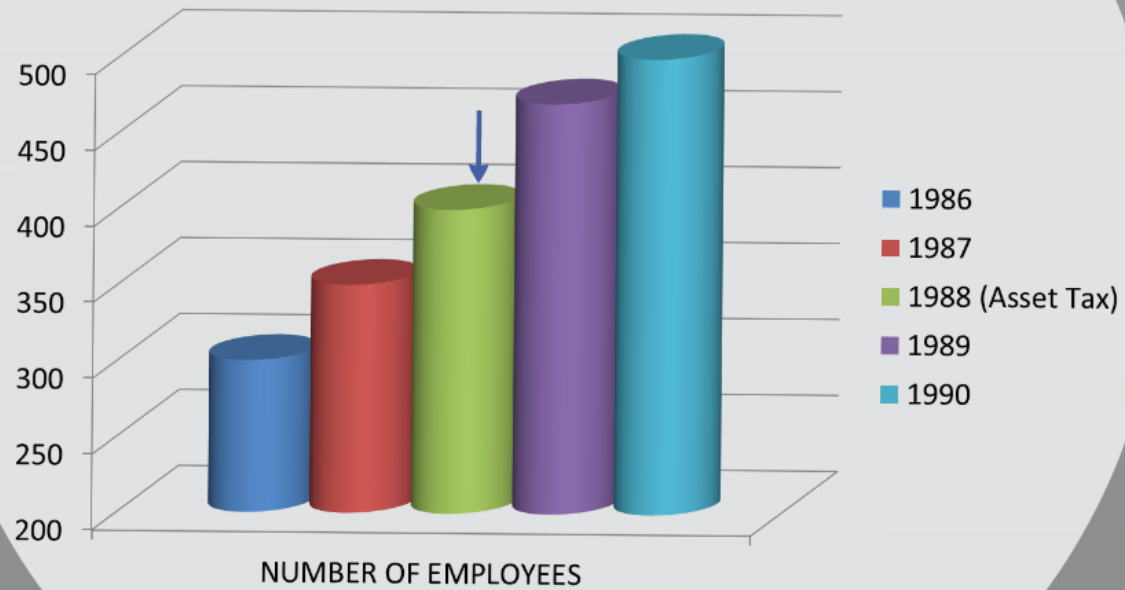
Asset Tax 1988

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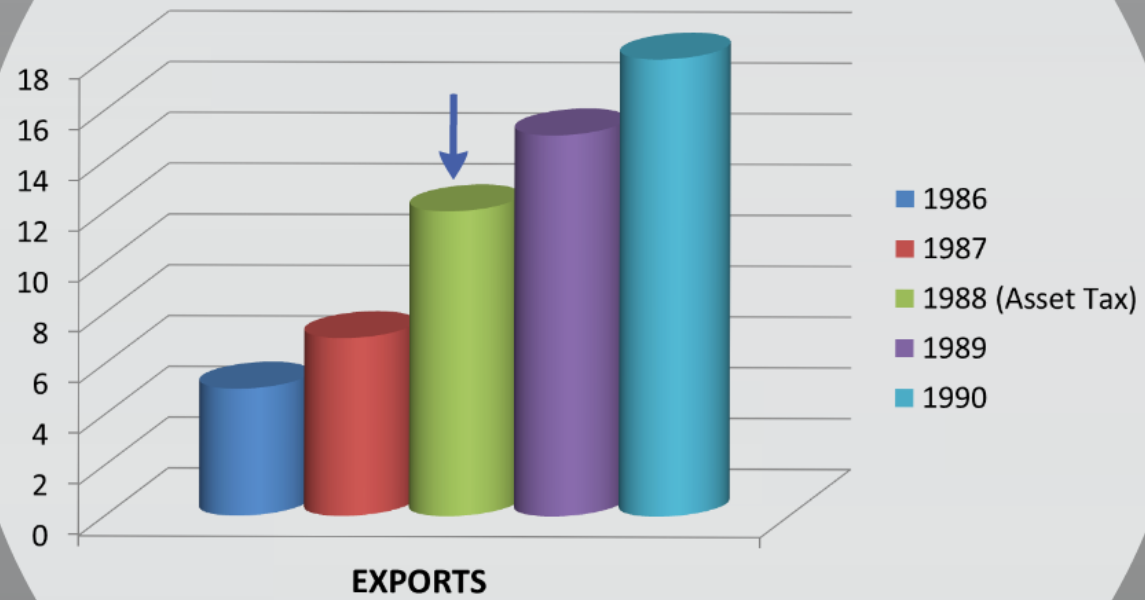


Asset Tax 1998

Asset Tax



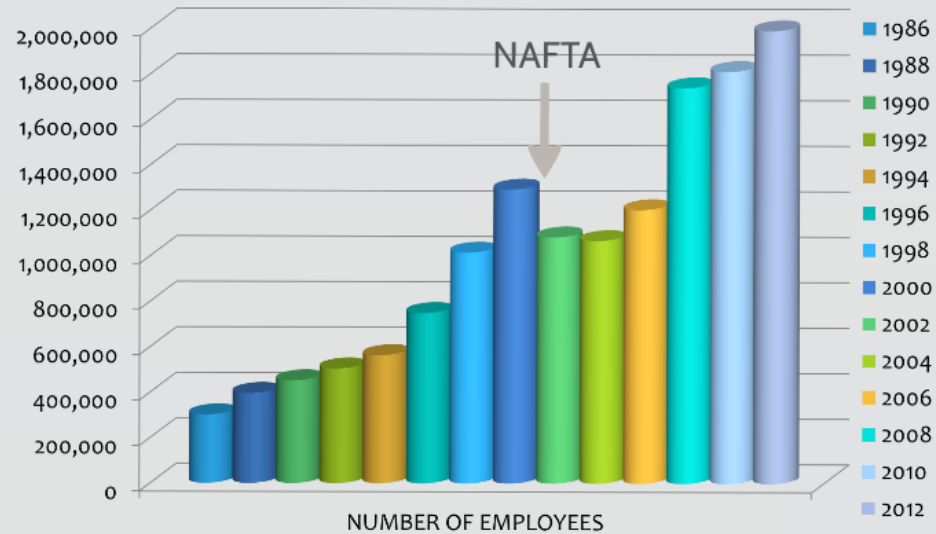
Asset Tax





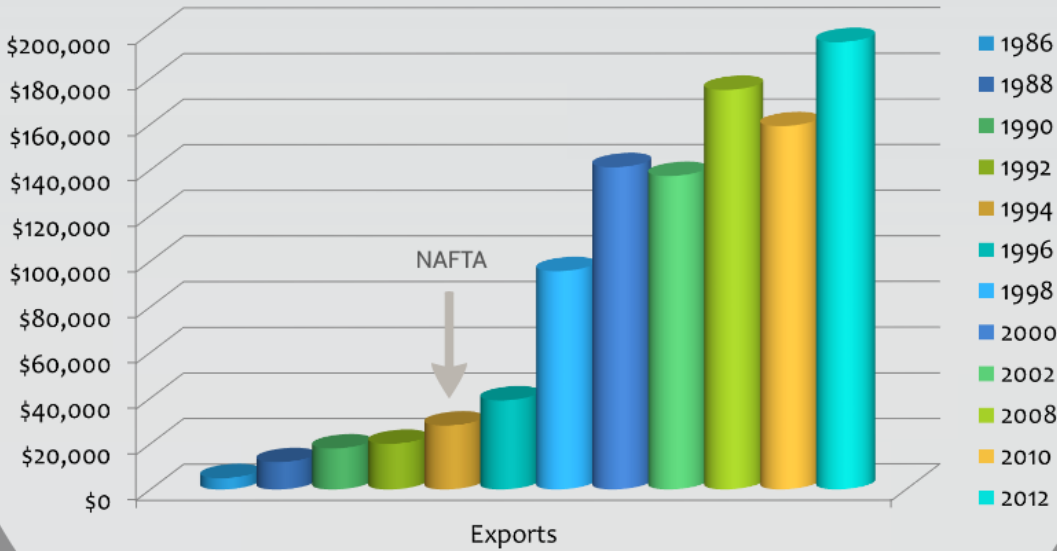
NAFTA 1994

Status of the Industry from 1986 to 2012 Number of Employees



SOURCE: INEGI

Status of the Industry from 1986 to 2012 Value of Export Output

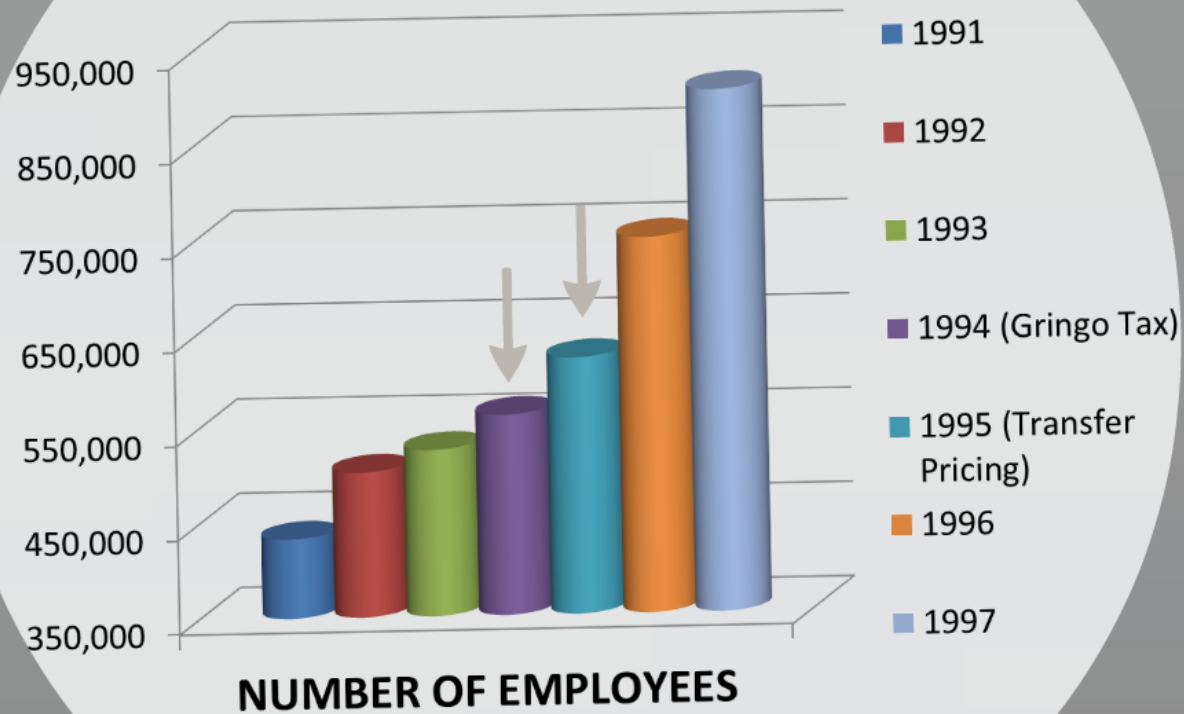


SOURCE: INEGI



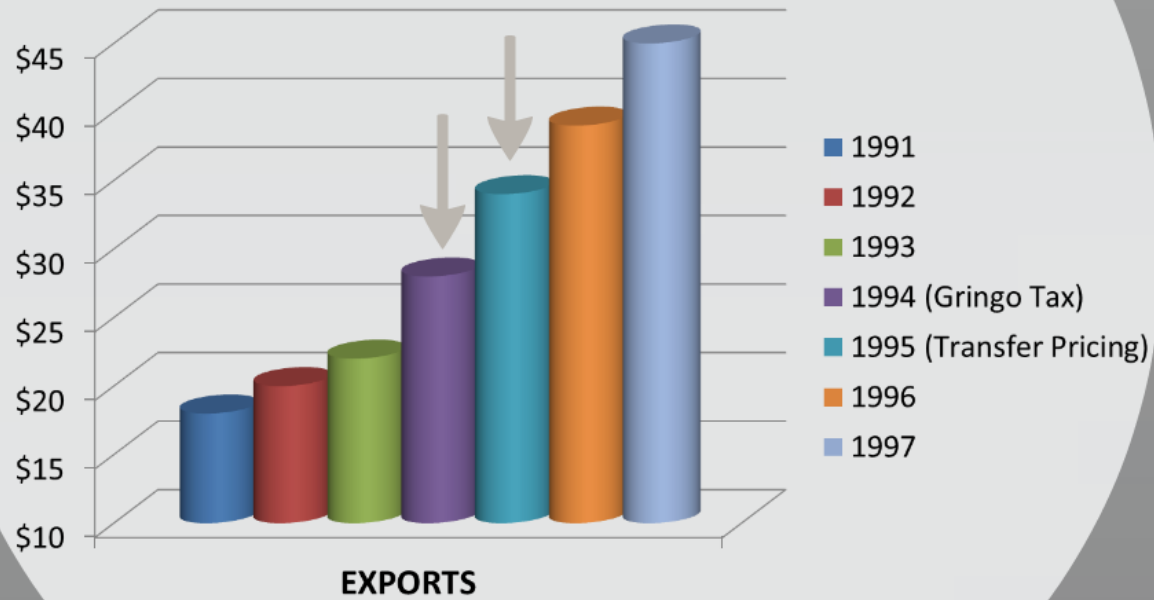
**Gringo Tax 1994
Transfer Pricing
1995**

Gringo Tax & Transfer Pricing



Gringo Tax & Transfer Pricing

BILLIONS



01

The Tax Reform and You

1. VAT on Imports
2. No Sales in Mexico
3. Electronic Accounting
4. Pre-approved APA's
5. Income Tax on Dividends
6. Limited Deduction of Non-Taxable Employee Income

Asset Tax 1998

FTA 1994

accounting and
em filings

rate citizen

The "Other" Good News





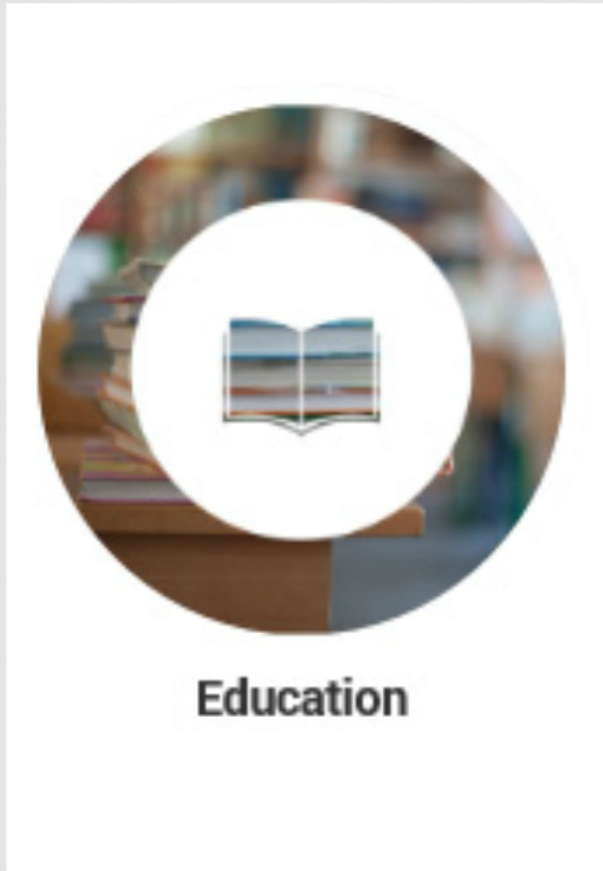
Labor



Financial



Economic Competition



Education



Criminal Procedure



Appeal Law



Political-Electoral



Telecommunications



Energy



Transparency



Action Items

1. Obtain your IVA certification
2. Restructure your sales in Mexico
3. Comply with the new electronic accounting and electronic Inventory control system filings
4. Obtain your APA
5. Identify the risks and opportunities created by the new laws
6. Continue being a responsible corporate citizen
7. Keep a long-term perspective

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