

I. FEDERAL REVENUE ACT

A) Interest on unpaid taxes

The interest rate on unpaid taxes when an extension is granted will be 0.75% per month. This rate may be increased in accordance with the length of the extension. The total applicable percentages, including updating, shall be as follows: 1% monthly on partial payments up to 12 months; 1.25% monthly on partial payments exceeding 12 and up to 24 months, and 1.50% monthly on partial payments exceeding 24 months.

B) Incentives

An incentive has been created for taxpayers who audit their financial statements, based on the report which determines that the taxpayer has complied with its obligations. This incentive is equivalent to the amount which results from applying 0.5% or 0.25% to the tax result for the year 2007.

The amount of this incentive may be credited against income tax corresponding to the year 2007.

Taxpayers dedicated to agricultural and forestry activities may credit the amount of investments made in fixed assets against the asset tax determined for the year.

Another incentive foreseen in the current legislation is the asset tax accrued on the year 2007. The executive branch will determine which taxpayers shall be entitled to this incentive by January 31, 2007.

The amount to be distributed in the tax year 2007 for tax incentives to technological research and development, as contemplated in article 219 of the Income Tax Law, is 4,500 million pesos.

Incentives will continue to be granted to taxpayers who have commercial activities and who may deduct diesel purchased for end use in the calculation of profits, as well as taxpayers who purchase special marine diesel, and for the import of consumer goods, equipment and machinery to border regions.

C) Waiving of tax debts

The Tax Administration Service, through the Local Collection Administrations, may waive tax debts if certain conditions are met.

D) International Dispute Resolution Mechanisms

The federal executive branch has authority to grant tax benefits in order to comply with resolutions issued pursuant to international dispute resolution mechanisms.

E) Exemptions

Sales of cars which use rechargeable batteries for propulsion, and of electric cars with internal combustion motors, are exempt from payment of the tax on new cars ("*impuesto sobre autom6viles nuevos*").

F) Report to credit information companies

As of January 1 2008, the Tax Administration System shall provide to credit information companies information related to taxpayers with unpaid and unsecured tax debts.

II. FEDERAL TAX CODE

A) Rights and obligations of taxpayers

- **Federal Taxpayers Registry**

Taxpayers who file periodic returns or who have an obligation to issue invoices, must obtain their advanced electronic signature certificate. This obligation applies also to partners and shareholders of companies.

- **Documentation of losses**

Taxpayers must provide documents which evidence the validity of a tax loss, when the tax authority is reviewing those years where tax losses for previous years are setoff. This obligation shall not apply when the tax authority has previously reviewed the years on which the tax losses were generated.

- **Micofilming and recording of accounting records**

The Tax Administration Service may, through rules of general application, authorize taxpayers to keep their accounting records in microfilm or optical disks. This authorization may be granted also to taxpayers who do not audit their financial statements.

- **Elimination of subsidies or tax incentives**

Subsidies and tax incentives will not be granted to taxpayers who incur in any of the causes for loss of the right to enter into contracts with governmental entities. Subsidies and incentives will be revoked to taxpayers who incur in any of the causes for loss of the aforementioned right.

B) Powers of tax authorities

- **Inquiries to tax authorities**

Opinions issued by tax authorities in response to inquiries submitted to them shall not be binding for the taxpayers, but shall bind the authority subject to certain rules.

One of the articles which govern the applicability of these provisions, states that taxpayers may request the revocation of favourable opinions issued pursuant to inquiries submitted by them, and of which they were notified prior to January 1st, 2007. We do not know why a taxpayer would request the revocation of a favourable opinion.

C) Review Powers

- **Review of tax losses**

The review of tax losses carried out by tax authorities shall only affect the calculation of the result for the year being reviewed, although authorities may review the origin and validity of losses occurred during previous years.

- **Procedural violations**

When the tax authority incurs in a violation of the review process which affects the validity of its actions in determining tax debts, it may repeat the pertinent part of the process on one single occasion. The term of twelve months for completion of the review visit shall be suspended while the process is being corrected, but said suspension shall not exceed two months.

D) Tax violations and tax offenses

- **Fines for omitted payments**

Fines for omitted payments, when the omission is discovered by the tax authority, shall be from 55% to 75% of the unpaid amount, a reduction from the range of 75% to 100% which was previously contemplated in the Code.

E) Administrative Procedures

- **Electronic notice**

Notices of resolutions of the tax authorities to taxpayers may be made through the internet page of the Tax Administration Service, through the page of the corresponding authority or by e-mail, in accordance with rules which will be issued in the future.

III. INCOME TAX LAW

A) Corporate entities

- **Agricultural, livestock, fishing and forestry activities**

For the year 2007, the benefit reducing the tax to be paid applicable to taxpayers dedicated to these activities will diminish to 32.14%, from the 42.86% applicable for the year 2006.

- **Liquidation**

When an entity ceases to be a resident of Mexico for tax purposes in accordance with the terms of a treaty for the avoidance of double taxation, said entity will be deemed to be liquidated, and all the assets of the taxpayer in Mexico and abroad shall be deemed to have been sold.

- **Trusts**

Tax losses stemming from the commercial activities of a trust may only be setoff against tax profits obtained through the same trust.

Foreign resident beneficiaries of a trust with commercial activities shall have a permanent establishment in Mexico, in relation to the activities of the trust.

Deductions

- **Deduction of restaurant expenses**

The deduction for restaurant expenses has been reduced from 25% to 12.5%.

- **Deduction of interest**

In the calculation of non-deductible interest, it is now necessary to include the average annual outstanding sum of debts contracted among related parties which are foreign residents, and the total of the taxpayer's interest-bearing debts.

When the annual average outstanding sum of the taxpayer's debts towards related parties which are foreign residents is less than the excess between the total of the average of interest-bearing debts and the net worth multiplied by three, the total of interest accrued from debts contracted with related parties shall be non-deductible. In the opposite case, the non-deductible interest shall be the result of multiplying the total interest by the number resulting from dividing the excess amount, between the average outstanding sum of debts contracted with related parties.

- **Automobile deductions**

Investments in automobiles purchased as of January 1st, 2007 will be deductible only up to Mx\$175,000.00 pesos, a reduction from the deductible amount of up to Mx\$300,000.00 pesos for 2006.

Losses

- **Deduction of losses**

Deduction of tax losses is now limited in certain cases where there is a change in the controlling partners or shareholders of a company; the setoff of these losses is permitted only against profits generated from activities which are the same as those of the company.

Companies resulting from a merger, and those where there is a change in controlling shareholders, shall keep a registry identifying the tax losses which correspond to each business activity.

Powers of the authorities

- **Interest deemed as dividends**

Interest derived from back-to-back loans shall be deemed as paid dividends. A back-to-back loan shall be deemed to exist when the loan is secured with shares or securities issued by the borrower or a related party of the borrower, and when the granting of the loan is conditioned to the execution of contracts which grant an option right in favor of the lender or a related party of the lender, and the exercise of the option is dependent upon default.

B) Individuals

- **Exemption for sale of a home**

An exemption for income derived from the sale of a home shall be applicable, without limitation of amount, in those cases where the taxpayer is able to evidence that he has lived in the home for the past five years.

In other cases, the exemption shall only be applicable to income of up to 1'500,000 UDIs or "*unidades de inversión*"¹. Based on the value of the UDI on January 1, 2007, this amounts to Mx\$5'684,800.50 pesos. For any excess, the profit shall be calculated, and the corresponding tax shall be paid.

In all cases, the exemption shall only be applied once during the calendar year.

- **Tax returns for income derived from salaries**

Employers have no obligation to file an annual tax return for employees whose yearly income exceeds Mx\$400,000.00 pesos. When this threshold is exceeded, the employee shall have the obligation of filing his own annual tax return. This provision shall also be applicable for the tax year 2006.

¹ UDI (Unidades de Inversión) are investment units whose value is inflation-linked and, thus, maintain the value of the debt in real terms.

C) Foreign residents

- **Trusts**

The trustee shall withhold tax when foreign residents obtain income from a source located in Mexico through a trust, unless the trust is an issuer of securities, in which case the depository of the securities will make the withholding.

- **Interest**

An article which will be in force for one year has extended the validity of the withholding rate of 4.9% to income for interest obtained by foreign registered banks, including investment banks.

Income derived from securities placed abroad, from securities destined to investors, and from certain other securities or documents for which this benefit is available, enjoy preferential withholding rates, provided that the securities were already registered before the National Registry of Securities and Intermediaries by December 24, 2006, or, as of 2007, when proper notice is given to the National Banking and Securities Commission.

D) Tax incentives

- **Real estate trusts**

Trustees which manage real estate trusts must be Mexican resident banks, authorized by Mexican governmental authorities.

Real estate trusts may also be created to grant financing in order to foster investment in real estate.

The term to enjoy preferential tax treatment for the transfer of real estate built or purchased by the taxpayer is extended from one to four years, counted from the date of purchase or completion of construction.

Persons and entities within the group of investors who may purchase participation certificates issued with regard to the assets which form the corpus of the trust may not be related parties.

The trustee must distribute among holders of the participation certificates 95% or more of the tax result for the previous year, derived from the assets which form the corpus of the trust. This distribution shall be made at least once year, no later than March 15.

Pension and retirement funds which are foreign residents and which purchase participation certificates which form the corpus of the trust shall not be obligated to pay income tax for income derived from the assets of the trust, or for capital gains obtained from the sale of the certificates.

The employee pension and retirement funds contemplated in article 33 of the law, may invest up to 10% of their reserves in participation certificates issued by real estate trusts.

- **Investments in film production**

Taxpayers who contribute to Mexican cinematographic production projects will enjoy a credit against income tax or asset tax equivalent to their contribution. This credit will not exceed the equivalent to 10% of income tax payable by the taxpayer for the previous year. In some cases, this incentive shall be applicable to those who made their contributions during 2006.

IV. Asset tax law

A) Tax rate and base

The tax rate is reduced from 1.8% to 1.25%; however, the possibility of making deductions to determine the tax base has been eliminated. It is important to note that the elimination of these deductions may be challenged through a constitutional *amparo* proceeding.

The possibility of deductions has also been eliminated with regard to the option of determining the tax base according to the fourth previous year.

B) Partial payments

Taxpayers may not deduct debts in order to determine partial payments for the year 2007; these payments will be calculated based on the updated tax which would have corresponded to them on the previous year without the deduction of debts.

Partial payments corresponding to January and February 2007 shall be made in the same way as those which would have been made for 2006, if the debts had not been deducted.

V. Excise tax law (*Ley del Impuesto Especial sobre Producción y Servicios*)

- **Tax on soft drinks and other beverages**

The tax of 20% which was previously applied to the transfer and import of soft drinks, syrups, etc. has been eliminated, as well as the tax on meditation, agency and other services related to the sale of these products.

Sincerely,

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