

GOODRICH, RIQUELME Y ASOCIADOS



PASEO DE LA REFORMA 265
COL. Y DEL. CUAUHEMOC
06500 MEXICO, D.F. MEXICO
APARTADO POSTAL 93 BIS
06000 MEXICO, D.F.
TELS. (52-55) 5533-00-40
FAX: (52-55) 5525-12-27
E-mail: mailcentral@goodrichriquelme.com
www.goodrichriquelme.com

8/10, rue Ventadour
PARIS 75001 FRANCE
TEL: (33-1) 42-60-27-00
FAX: (33-1) 42-60-27-13
E-mail: graparis@goodrichriquelme.com

TAX INCENTIVES AND BENEFITS FOR TAXPAYERS RESIDENT IN MEXICO PROVIDED IN THE INCOME TAX ACT AND THE ASSETS TAX ACT.

By: Raúl Moreyra

The main tax incentives for new or existing companies in Mexico are mentioned below, although some other benefits are available depending on the activity or the amount of income.

Other attractive incentives (including cash subsidies) are sometimes offered by state governments. These vary from state to state according to the amount of the investment and the number of jobs created.

The following are the most important tax incentives and benefits granted under the above-mentioned statutes:

1. Income Tax.

a) Immediate deduction of new fixed assets.

Corporations and private individuals engaged in business and professional activities may opt to deduct investments in new fixed assets in 1) the fiscal year when the investment is made, 2) the fiscal year when the new fixed asset begins to be used, or 3) the following fiscal year. The amount of the deduction in these cases is not 100% of the investment but a percentage that varies according to the type of asset (the percentages, which are specified in an Executive Order dated 20 June 2003, range from 63% to 96%).

New assets are deemed to be assets that are used for the first time in Mexico, although they may already have been used in a foreign country.

In general, this option may be chosen for investments made in any part of Mexico. However, if the investments are made in the metropolitan areas of the Federal District, Guadalajara, or Monterrey, the option will not be applicable to enterprises that require intensive use of water in their production processes or that fail to use clean technologies to treat their polluting emissions.

The option to deduct in one fiscal year does not apply to expenditure on office furniture and equipment, automobiles, armor-plating for automobiles, airplanes (except those to be used for crop-spraying), and to property that cannot be individually identified.

Besides, the following investments in fixed assets do not qualify for the lump-sum deduction if made in the restricted

BOMCHIL, CASTRO, GOODRICH, CLARO, AROSEMENA Y ASOCIADOS
ARGENTINA, BOLIVIA, BRASIL, CHILE, COLOMBIA, COSTA RICA, ECUADOR, EL SALVADOR, GUATEMALA, HONDURAS,
NICARAGUA, PANAMA, PARAGUAY, PERU, PUERTO RICO, REPUBLICA DOMINICANA, URUGUAY, VENEZUELA

areas mentioned above (buses, cargo trucks, motocarriers and trailers).

b) Tax incentive for Technological Research and Development.

Income-tax payers enjoy a tax incentive on technological research and development projects carried out in the fiscal year that allows them to credit 30% of their expenditure on technological research and development in the fiscal year against the income tax or assets tax assessed in the period or against the tax assessed in the following ten fiscal years until the credit is used up.

For the purposes of this tax incentive, investment in technological research and development is deemed to consist of the expenditure and investment made in Mexico that is directly and exclusively used in the taxpayer's own projects to develop products, materials, or production processes that represent a scientific or technological improvement.

The total amount of the incentive to be distributed among candidates that meet the requirements will not exceed 4,000 million pesos for 2006.

c) Maquila Companies.

Maquila companies are partially exempt from income tax.

The exemption is the equivalent of the difference between 1) the amount of income tax on the taxable income calculated by taking 6.9% of the value of the assets used in the maquila operation during the fiscal year or 6.5% of the amount of the operating costs and expenses (whichever is greater) and 2) the amount of income tax that would be assessed by taking 3% of the value of assets or of costs and expenses, as appropriate.

The resulting amount is deducted from the income tax payable by the taxpayer in the fiscal year in question.

d) Agricultural and other activities.

In the 2006 fiscal year, taxpayers who are engaged in agricultural, ranching, fishing, or forestry activities may deduct 44.83% from their income tax, which is assessed at a rate of 29%.

2. Assets Tax.

a) Maquila Companies.

Residents abroad that keep inventories in Mexico to be transformed by maquila companies or that grant said maquila companies the temporary use or enjoyment of goods of foreign origin during the fiscal years 2003-7 may include in the value of the assets only the proportion of said inventories or goods that corresponds to the ratio of production for the domestic market to total production, provided always that transfer price regulations are complied with.

b) Initial exemption.

GOODRICH, RIQUELME Y ASOCIADOS

Assets-tax payers do not pay this tax for the period prior to operation, for the fiscal years when they are starting up, for the two following fiscal years, or for the fiscal year when they are liquidated (unless this lasts for more than two years). This translates into an exemption for the first four fiscal years after the date when the first income is earned.

Yours faithfully,