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Dear clients and friends:

The following is a summary of the most important amendments to the tax legislation. They were published in the Federal Official Gazette on different dates and will come into effect on 1 January 2006.

The amendments that we shall discuss here concern the Federal Revenue Act, the Income Tax Act, and the Value Added Tax Act.

I. FEDERAL REVENUE ACT

A) Interest on unpaid taxes

In 2006, the rate of interest 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.

B) Incentives

Some of the incentives provided to certain sectors in 2005 are repeated in 2006.

Taxpayers whose income has not exceeded 4 million pesos in the 2005 fiscal year will receive an incentive on the amount of assets tax to be paid in 2006.

C) Interest

The withholding rate during 2006 on income from interest paid by credit institutions and other payers of interest remains at 0.5%.

D) Waiving of fines and interest on unpaid taxes

The Tax Administration Service and the Mexican Social Security Institute are authorized to come to arrangements with taxpayers and may waive fines or interest if certain conditions are met.

II. INCOME TAX ACT

A) General Provisions

- **Maquila company under the shelter program**

The term of the concession whereby these companies will not be considered to have a permanent establishment in Mexico is extended to 2011.

B) Corporate Entities

- **Tax rate**

The rate applicable to corporations in 2006 is 29% and the dividend grossing-up factor is 1.4085.

The tax payable will be reduced by 44.83% for taxpayers engaged in agriculture, ranching, fishing, or forestry.

- **Thin capitalization**

The formula for calculating the annual average debt balance to ascertain non-deductible interest when debt exceeds net worth will not include credits subject to conditions that limit the debtor's freedom to distribute profits, reduce capital, sell assets, take out new loans, or transfer the ownership of the majority of its capital stock. There is an option to apply this provision also for 2005.

- **Real estate certificates and pensions reserves**

The balance of this type of reserve may also be invested in certificates of investment in real estate trusts issued by fiduciary institutions or in the stock of companies that invest in the trusts in question.

- **Annual adjustment**

Debt that exceed the limits set by the regulations on thin capitalization are not taken into account when calculating the annual adjustment. There is an option to apply this provision also for 2005.

- **Producers' cooperatives**

A chapter has been added that includes regulations for an optional tax treatment for Producers' Cooperatives.

- **Transfer pricing**

Taxpayers will now have to use transfer pricing methods in the order specified in the Act. They must first use the comparable price method. Only if this method is found to be unsuitable may they use the others.

- **Reporting cash income**

Taxpayers must inform the Tax Administration Service by the 17th of the following month of any cash income in foreign or Mexican currency or in gold or silver coins that exceeds 100,000 pesos.

C) Tax-exempt corporate entities

- **Human Rights**

Provided that they satisfy certain requirements, non-profit organizations and other bodies engaged in the defense of human rights will be considered exempt from tax.

- **Donations**

Donations in cash or in gold or silver coins that exceed 100,000 pesos must be reported to the Tax Administration Service by the 17th of the following month.

D) Natural Persons

- **Wages**

The provisions on employment subsidies and income leveling are derogated, as is the tariff that would have come into effect in 2006, which envisaged only two ranges of income with rates of 25% and 29%.

The monthly withholding is to be calculated by applying the five-range progressive tariff set forth in Section 113. This runs from 3% to 29%. The credit subsidy and, where applicable, the reduction in wage credit are to be deducted from the amount assessed as tax.

E) Business and professional activities, leasing and sale of property

Like corporations, all taxpayers who obtain income from the above activities will be obliged to inform the tax authorities of any income in cash or in gold and silver coins that exceeds 100,000 pesos.

- **Small Taxpayers**

The amount of exempt monthly income for these taxpayers is reduced to four times the general minimum wage for the geographical area.

- **Tariff for natural persons**

The maximum general annual exempt income of 76,000 pesos is abolished. In 2006, the annual tariff will be split into five ranges running from 3% to 29%.

F) Residents abroad

- **Interest**

In 2006, the withholding rate on income from interest paid to banks domiciled in a country with which Mexico has entered into a Tax Treaty will be 4.9%.

- **Exempt interest**

An extension is granted to the tax exemption on interest paid to overseas residents arising from loans made to the Federal Government or to the Bank of Mexico and to interest arising from negotiable instruments issued by the Federal Government or the Bank of Mexico placed through the Mexican Securities Market.

- **Exempt profits**

Profits arising from transactions involving financial instruments indexed to the Interbank Equilibrium Rate or to negotiable instruments issued by the Federal Government or the Bank of Mexico which are traded on the securities exchange or in recognized markets will be exempt.

G) Preferential Tax Treatments

- **Excluded income**

Taxpayers will not consider as income from a jurisdiction with a preferential tax treatment income other than that considered as passive income (interest, dividends, capital gains) when both the taxpayer and the entity in which the income is created have their financial statements audited by a firm of accountants located in Mexico.

- **Included income**

When the taxpayer invests directly or indirectly in foreign entities that produce revenues by selling goods whose origin or destination is Mexico, said revenues will be considered to have

been obtained in a jurisdiction with a preferential tax treatment.

H) Tax Incentives

- **Immediate deduction**

The deduction for investment in new fixed assets may be taken in the fiscal year in which the investment is made, in that in which it is used, or in the following fiscal year. The deductible percentages are those specified in the Executive Order of 20 June 2003.

- **Investment in shares of Mexican corporations and loans**

To create a favorable atmosphere for the financing of Mexican corporations, a system has been set up whereby those who invest through trusts in shares issued by unlisted corporations resident in Mexico and those who lend them money will become liable to tax according to the tax treatment which is applicable to them. This is not to be considered a special incentive.

- **Real-estate trusts and real-estate corporations**

Certain tax benefits are granted on income obtained by the holders of certificates of investment issued by real estate trusts and on income received by shareholders who contribute real estate to real-estate corporations.

- **Film production**

The incentive to invest in film production was modified so that investors will be able to credit 10% of the tax incurred in the fiscal year on income arising from this class of investment.

III. VALUE ADDED TAX ACT

A) Small Taxpayers

These taxpayers may choose to calculate this tax on the basis of estimated income or they may choose to pay in accordance with the statutory regime.

B) Crediting the tax

When determining the percentage of VAT to be credited, the value of the transfers of non-redeemable certificates of investment in real estate trusts will not be included.

C) Transfer of non-redeemable certificates of investment in real estate trusts

The transfer of these certificates is exempt from VAT when they are entered in the Securities Register and transferred through the Securities Exchange.

D) Tax refund for tourists

As from 1 July 2006, foreign tourists leaving the country by air or sea will be able to obtain a refund of the Value Added Tax transferred to them when they have bought goods worth at least 1200 pesos from the same store.

Yours faithfully

Goodrich, Riquelme y Asociados

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