

January 2010

Reforms to the Tax Laws for the 2010 tax year

Dear clients and friends:

During the months of November and December 2009, the Mexican Federal Congress enacted the Revenue Law of the Federation for the Fiscal Year 2010 (*Ley de Ingresos de la Federación para el Ejercicio Fiscal de 2010*) and adopted a number of legislative amendments with respect to the following Laws and Regulations:

The Income Tax Law (*Ley del Impuesto sobre la Renta*);

The Federal Tax Code, (*Código Fiscal de la Federación*);

The Value Added Tax Law, (*Ley del Impuesto al Valor Agregado*);

The Tax Law on Cash Deposits (*Ley del Impuesto a los Depósitos en Efectivo*);

The “Decree that provides the obligations that can be calculated in Investment Units, and that reforms and adds various dispositions to the Federal Tax Code and the Income Tax Law” (*Decreto por el que se establecen las obligaciones que podrán denominarse en unidades de inversión y reforma y adiciona diversas disposiciones del Código Fiscal de la Federación y de la Ley del Impuesto sobre la Renta*); and

The Law on the Special Tax over Production and Services (*Ley del Impuesto Especial sobre Producción y Servicios*);

The Law on Federal Governmental Fees (*Ley Federal de Derechos*);

The new Regulations of the Federal Tax Code (*Reglamento del Código Fiscal de la Federación*).

All such tax-related legislative changes have been duly published in the Mexican Official Gazette of the Federation (*Diario Oficial de la Federación*) and although some of the amended provisions approved therein have

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entered into force on January 1st, 2010, some others will become effective at later dates as it will be indicated in the summary we prepared below with respect to the most relevant amendments thereof.

As a result of the recently approved Tax Reforms, below you will find a summary of the most relevant provisions thereof.

REVENUE LAW OF THE FEDERATION FOR THE FISCAL YEAR 2010

The agreed-to surcharges for partial payment (0.75%) and late payments (1.13%) will continue in effect for 2010.

Due to the reforms in the consolidation regime, Nacional Financiera S.N.C. (Federal Government Investment Bank) will be entitled to grant loan facilities in favor of consortiums in order for them to pay deferred taxes from tax years prior to 2005.

INCOME TAX LAW

I. General Dispositions

Financial System

From the reforms, the Central Bank of Mexico (Banco de México) is included as an entity that forms part of the Financial System for the purposes of the Income Tax Law in order to determine the fiscal regime of the interest paid by such Bank.

II. Chapter II: Entities

Tax Rates

The corporate tax rate on entities for the 2010 period will be 30%. Pursuant to the temporary provisions of the Income Tax Law, this rate will also be in effect in the 2011 and 2012 periods, and will be eventually reduced in the 2013 period to 29%, and then returned to the 28% rate in the 2014 tax period.

Consequently, the applicable factor to the dividends not distributed from the Net Fiscal Profit Account (CUFIN) and that are taxable for the periods running from tax year 2010 to 2012 will be 1.4286. Such factor will be eventually reduced in the 2013 period to 1.4085 and it will finally return to the factor of 1.3889 in the 2014 period.

The reduction in the applicable rate to legal entities the economic activities of which is exclusively oriented to agricultural, cattle raising, fishing or silviculture matters will be diminished for 2010 period. Rather than having a reduction in the rate by the amount of 32.14%, which would lead to the application of a 19% rate, it will only have a reduction of 25% (30% during the 2010, 2011 and 2012 periods and 27.59% for the 2013 period), which will lead to the application of a 21% rate. The grossing-up factor applicable to the taxable dividends issued by the aforementioned taxpayers will be 1.2658.

Deductible donations

Deductible donations include those granted to international organizations of which Mexico is fully entitled member, to the extent that the purposes of such organizations correspond to the activities for which Mexican non-lucrative entities are entitled to obtain authorization in order to receive deductible donations.

Receipts for Income Tax Law requirements

The requirements of the Federal Tax Code were harmonized vis-à-vis those of the Income Tax Law regarding the authorized documentation for evidencing deductions by allowing the use of account statements from the Institutions which form part of the Financial System.

Calculation of taxable interest

The mechanism for the calculation of taxes on interests was modified. Beginning on January 1st, 2011, on the last day of the corresponding calendar month the members of the financial system must calculate the “real positive interest”, withhold the corresponding tax on the first day of

the following calendar month, and pay it to the authority within the three business days as of the date on which it was withheld.

In case no funds are available in the accounts or financial assets that the taxpayer maintains in the relevant financial system institution, the withholding will be partially or totally carried out when liquid funds or assets are available. In such case, it will be applied the updating procedure regarding interests in accordance with the Law.

Likewise, it was established certain provisions in case of cancelation or total transfer of the taxpayer's accounts or financial assets.

The basis for the calculation of real interest, either positive or negative, as the case may be, will be Investment Units (UI), and the same will be based in the increase reported in the account's balances at the end of the month.

The withholding carried out by the institutions that are part of the Financial System shall be considered definitive payment by individuals residing in Mexico. Legal entities residing in Mexico must consider these withholdings as provisional tax payments.

The reform established the necessary definitions for the application of this regime towards Investment Funds (Sociedades de Inversión). The Tax Administration Agency (SAT) will establish a simplified procedure in order that such Investment Funds may determine the rate of real interest.

The reform also established a special procedure for updating tax pending to be withheld derived from interests paid by financial system institutions and the obligations of such institutions were reformed accordingly.

During the tax period 2010, the financial system institutions must withhold and pay the tax according to the rate provided by the Federal Congress in the Revenue Law of the Federation for the Fiscal Year 2010 (0.60%) on the amount of capital from which interest payments derived and from the date on which the investment commenced or as of the date on which the taxpayer has collected interests for the last time until the 31st of December, 2010.

Consolidation

In order to stop consolidating fiscal results once the minimum period of consolidation has expired, the controlling company must file a notice, and not a request for authorization.

Along with such notice it must be filed the audited financial statements of the companies that consolidate their tax results related to the preceding tax year to that on which they stop consolidating, to the tax year on which they actually stop consolidating and the corresponding tax as figured out from such tax deconsolidation.

As of the 2010 period, the controlling companies must pay, in each tax period, the updated income tax deferred as a result of the consolidation and generated in the sixth tax period prior to that on which it must pay it, to the extent it has not been paid on or before the December 31st preceding to the date of payment.

The law establishes two optional procedures for the calculation of the tax. These procedures must be adopted for a minimum term of five tax periods once the option has been elected.

The deferred tax must be paid on the same date on which the statement of consolidation of the corresponding tax period is filed and such tax must be updated for inflation considering the period between the month in which the tax payment would have been made, had no consolidation of tax results taken place and the date of payment.

The deferred tax must be paid in five tax periods according to the following schedule:

- I. 25% in the first tax period in which the deferred tax payment must be made.
- II. 25% in the second tax period.
- III. 20% in the third tax period.
- IV. 15% in the fourth tax period.
- V. 15% in the fifth tax period.

In case of failure to comply with payment of the deferred tax of the first period, the total deferred tax will be charged without being entitled to apply the five year deferment period, plus the corresponding surcharges on the updated amount.

If the failure to comply with payment of the deferred tax corresponds to the following tax periods, the remaining amount of the updated deferred tax due must be paid with the corresponding surcharges.

The procedures for calculating the deferred tax are:

- a) The procedure foreseen for cases of deconsolidation and disincorporation.
- b) A procedure for determining the deferred tax for the application of fiscal losses of the controlling and the controlled companies, the balance of the consolidated and individual net fiscal profit account of the controlling company and the controlled companies, and the deferment of payment of tax on the distribution of dividends to the companies of the group.

The record-keeping obligations and accounts that the controlling company must maintain as well as the information that must appear in the fiscal report were increased accordingly.

During the 2010 tax period, the controlling company must start paying the corresponding deferred income tax for the tax periods prior to 2005 and that has not been paid on or before December 31st, 2009. In such case, the controlling company may apply the procedure of deconsolidation and disincorporation or that specifically established for this effect in the temporary provisions.

The deferred tax from the previous tax periods to 2005 must be paid in accordance with the following schedule:

- a) 25%, through a tax return to be filed in the month of June 2010.

- b) 25% on the same date that the tax return of consolidation for the 2011 tax year must be filed.
- c) 20% on the same date that the tax return of consolidation for the 2012 tax year must be filed.
- d) 15% on the same date that the tax return of consolidation for the 2013 tax year must be filed.
- e) 15% on the same date that the tax return of consolidation for the 2014 tax year must be filed.

Obligations of legal entities

Those taxpayers who issue digital fiscal receipts shall comply with the obligation to file the tax return of the fiscal results of the period or the taxable profits of the same and the corresponding amount of taxes, through the filing of the auditor's report.

III. Chapter III: Entities with non-profitable activities

Legal entities considered non-taxpayers of the income tax that transfer assets other than their fixed assets or which render services towards individuals other than their members or associates must determine the corresponding tax applying the corporate rate, to the extent that said income exceeds 5 % of the total income of the corresponding legal entity.

Legal entities and trusts authorized to receive deductible donations may obtain income derived from other activities for which they have been authorized to receive said deductible donations to the extent that such income does not exceed 10% of the total income of the tax period. It shall not be considered as income derived from other activities for which they have been authorized, that stemming from the receipt of donations, support or incentives granted by the Federation, federal entities or municipalities; the transfer of their fixed or intangible assets; membership fees; interests, ownership rights derived from intellectual property; use or temporary enjoyment of real estate, or earnings obtained from stocks and

other credit titles placed in the stock exchange in accordance with the terms provided by the general rules to be established by the Tax Administration Agency.

Legal entities and trusts authorized to receive deductible donations are included as well amongst the legal entities that must determine implied distributable excess, for omissions of incomes or purchases not carried out or non-deductible, or loans.

Likewise, the Tax Regime applicable to Investment Funds on Debt Instruments and the Investment Funds on Capital Instruments is harmonized.

IV. Chapter IV: Individuals

Exemption for a residential house

The exemption applicable on revenues derived from the transfer of residential house shall only be applicable if during the immediate preceding five years to the relevant transfer, the taxpayer would have not transferred another residential house and represents under oath such circumstance before the corresponding notary public.

Public notaries must consult the Tax Administration Agency , through its website, as to whether the taxpayer has transferred another residential house during the five years prior to date of the transfer.

Tariff for provisional tax payments and annual tariffs

It was amended the tariff applicable to individuals for the calculation of provisional payments and for the calculation of the annual tax. The increase in the 2010, 2011 and 2012 periods is up to 30%, beginning with monthly income above \$10,298.35, raising the rate approximately two percentage points in each range.

The provisions corresponding to computing and calculating the taxable interest for individuals are modified according to the norms related to the calculation of interests for companies in the financial sector. The provisions

related to interest will enter into force on January 1st, 2011 as described in the temporary dispositions.

Tax Receipts

Individuals that issue digital tax receipts and present auditor's reports of their financial statements in terms of the Federal Tax Code shall be deemed to have filed the tax period's tax return when the auditor's report is filed in the term provided by the law.

V. Chapter V: Foreign residents

Investment Funds interest

It was modified the tax regime towards the interests generated by investment funds on debt and capital instruments.

Interests paid to Foreign owned banks

The application of the 4.9% rate on interest received by banks residing in countries with which Mexico has executed treaties to avoid double taxation has been extended; the foregoing, provided that such banks are recorded with the Mexican fiscal authority in the pertinent registry established by the law and other requirements set out in the corresponding treaty are complied with.

VI. Chapter VII: Fiscal incentives

There has been a revocation of the fiscal incentive for expenses and investments in research and development of technology that consisted in a credit of up to 30% of costs and investments incurred during the period of the investigation and development of the technology, carried out in the national territory, destined directly and exclusively to the execution of the taxpayer's own projects directed towards the development of products, materials or production processes that represent a scientific or technological advance.

It is clearly provided that the fiscal incentive for investment projects in the production of the national film industry shall not be accumulated for taxation purposes.

FLAT RATE BUSINESS TAX LAW (IETU LAW)

For the 2010 period, the tax rate will be 17.5%.

Pursuant to the provisions contained in the Revenue Law of the Federation for the Fiscal Year 2010, the amount of tax credit for deductions higher than income derived from taxable acts cannot be credited by the taxpayer against the income tax accrued in the period in which the credit was generated.

VALUE ADDED TAX LAW

I. General rate and border region rate

The general Value Added Tax rate increases one percentage point to 16% for 2010 and 11% in the border zone. This rate will be applicable to those operations carried out before the reforms become effective, if the charges are paid once the reform has come into effect. In the temporary norms it is established the possibility to apply the 15% rate with respect to cases on which the transfer of goods, the rendering of services and granting of use and enjoyment of goods take place in 2009 but the corresponding consideration is received within ten calendar days following the entry into force of the reform.

II. Interest

As of July 1st, 2010, there will no longer be an exemption on interests that are received by credit institutions, credit unions, non-bank banks, Popular Savings and Credit Institutions, and factoring institutions from its financing operations, when they grant loans to individuals paying income tax under the regime of small taxpayers and opting to pay the value added tax by estimative.

In order for the above referred interest exemptions to be applicable in favor of individuals that carry out business activities or render independent personal services with respect to credits granted for the acquisition of investments or repairs and working capital, it will be necessary that such individuals are recorded in the Federal Taxpayers' Registry (RFC).

TAX LAW ON CASH DEPOSITS

For the 2010 period, the accumulated amounts exceeding \$15,000.00 Mexican pesos will be taxable instead of \$25,000.00 Mexican pesos and the tax rate will be 3% instead of 2%.

This tax will not be applicable to individuals, except for those that are taxed for business activities and independent professional services, for deposits in accounts open for the purposes of credits granted by financial system institutions, up to the of amounts of debts to said institutions. This provision will enter into force as of July 1st, 2010.

Amongst the legal entities that are considered financial system institutions for the purposes of this tax are included: Savings and lending cooperative institutions, community financial associations, rural financial integration institutions, and multiple purpose financial institutions, as well as other institutions that mentioned in the temporary articles of the law.

FEDERAL TAX CODE

I. Updating

The updated amount of tax payments is neither deductible nor creditable for purposes of corresponding taxes (income tax, flat rate business tax, value added tax and special tax over production and services).

II. Investment Units

The basis for calculation of the investment unit based on the inflation rate is included in the tax legislation.

III. Refunds

Taxpayers who print digital fiscal receipts can obtain refunds of the amounts owed in their favor within a period of twenty days. This provision shall enter into force as of January 1st, 2011.

IV. Receipts

Tax receipts regime is modified to establish the rule for issuance of digital receipts via the Internet web page of the Tax Administration Agency. This provision enters into effect on January 1st, 2011.

The issuance of digital receipts can be done on one's account or through services providers, in compliance with the requirements established by the Tax Administration Agency.

Once the reform takes effect, only operations of amounts less than \$2,000.00 Mexican pesos can be exempted from the requirement of issuing tax receipts in digital format, to the extend printed receipts comply with certain requisites and obtaining a folio number from the Tax Administration Agency (SAT).

V. Complementary tax returns

Once the overseeing authority of tax authorities has been initiated, complementary tax returns from previous periods shall have no effect on the corresponding tax period.

VI. Tax offenses

Penalties imposed upon tax fraud shall be applicable to taxpayers who validate for fiscal purposes digital or printed receipts that do not have the security devices required by the law. Likewise, it is included as a criminal offense, inter alia, the fabrication, forgery, reproduction, commercialization, alteration or manipulation of security devices that are not acquired in conformity to the law. These provisions shall also enter into effect as of January 1st, 2011.

VII. Seizure of bank deposits

The seizure of bank deposits is regulated in order to equal to the corresponding amount of tax credits. Its procedure is also now regulated.

LAW ON THE SPECIAL TAX OVER PRODUCTION AND SERVICES

I. Gambling activities

There is an increase from 20% to 30% to the tax rate applicable to the carrying out of gambling activities and lotteries, regardless of what name is used to call them, which require permits in conformity to the rules of the Federal Law on Gambling and Lotteries and its Regulations, those that are carried out by decentralized organizations, as well as gambling activities or contests in which the prize is awarded as a result of the skills of the participant in the use of machines that, in the course of the game, use electronic visual images such as numbers, symbols, figures or other such similar visual representations, and that are carried out in the national territory.

II. Services via one or more public telecommunications networks.

Services that are provided via one or more public telecommunications networks will be taxed at a rate of 3%.

III. Exemptions of telephone services

The following services are exempt from this tax:

1. Rural fixed line service, consisting of fixed line services rendered in population centers of up to 5,000 inhabitants, pursuant to the latest definitive results, referred specifically to the population, derived from the general census of population and housing published by the National Institute of Statistics, Geography and Information (INEGI).

2. Public telephone services, consisting of access to services provided via public telecommunications networks, and which must be offered to the general public, by means of installation, operation and access to use of public telephones.
3. Interconnection, consisting of the physical or virtual, logical and functional connection between public telecommunications networks, which permit the conducting of traffic between such networks and/or between telecommunications services rendered through the same, in the manner that users of one of the public telecommunications networks can be connected to and exchange traffic with users of another public network and vice-versa, or as well, allow a public telecommunications network and/or its users to use telecommunications services and/or capacity and functions provided by or through another public telecommunications network. Interconnection services are considered those that occur between Mexican residents as well as those that occur between Mexican residents and foreign residents.
4. Internet access, via fixed or mobile network, consisting in all services, applications and content by means of which said access to the Internet is offered via a telecommunications network.

When services referred in the previous paragraph are rendered in conjunction with other services rendered via a public telecommunications network, the exemption will be effective in cases where the respective receipt specifies the charges corresponding to the Internet access separated from other services provided via the public network and that said charges are determined in accordance with the prices and amounts that would be charged in the case where the services would not have been provided in combination with other services taxed by this law. In this case the exempted Internet services cannot exceed 30% of the total charges previously referred in the combined receipt.

FEDERAL GOVERNMENTAL FEES ACT

Permits for the constitution of trusts

The fee for obtaining permits for constituting and amending trusts provided in the Foreign Investment Law is increased.

Authorizations for sanitary matters

For the issuance of the sanitary license in favor of companies carrying out production, processing or importation of tobacco products related activities, the governmental fees for licenses granted in favor of factories or laboratories shall equal to \$126,374.00 Mexican pesos and for licenses granted in favor of warehouse for storage and distribution shall equal to \$40,940.00 Mexican pesos. These fees double those paid for the issuance of a sanitary license towards companies that provides material for health related matters.

REGULATIONS OF THE FEDERAL TAX CODE

Prohibitions applied to Certified Public Accountants

It is specified the restrictions upon certified public accountants for preparing financial reports on financial statements, on operations related to the transfer of assets, statements prepared for the purpose of refunds of balances of value added taxes or any other report that has tax related-implications that would affect his or her independence and impartiality.

In rule I.2.18.14 contained in the Third Resolution of modifications to the Miscellaneous Fiscal Resolution for 2009 and its annexes 5, 8, 15 and 19, published in the Official Gazette of the Federation on December 28th, 2009 and in force as of January 1st, 2010, it is specified the cases falling within the above-mentioned restrictions.

Sincerely

GOODRICH, RIQUELME Y ASOCIADOS