



Doing Business in Mexico & Canada

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CANCHAM
MÉXICO



JA Del Río



Speakers



Montserrat Colín

TRANSACTION TAX PARTNER
JA DEL RIO
MONTSERRAT.COLIN@JADELRIO.COM



Andrew Y.H. Lam, LLB

INTERNATIONAL TAX PARTNER
NATIONAL DIRECTOR, CORE INTERNATIONAL TAX
MNP LLP
ANDREW.LAM@MNP.CA



A low-angle, upward-looking shot of a circular architectural structure, possibly a dome or a large atrium. The structure is composed of a series of concentric rings of concrete or stone. The innermost ring features a series of rectangular windows or openings, some of which are illuminated from within. At the very center is a large, bright circular skylight. Two circular decorative motifs, resembling stylized sunbursts or geometric patterns, are positioned symmetrically above and below the central skylight. The overall composition is highly symmetrical and creates a strong sense of depth and scale.

Why Invest in Mexico & Canada?



MEXICO

Why México?

Mexico is Latin America's second-largest economy after Brazil. With a total of 12 free trade agreements with 46 countries, its top export destinations are the United States, Canada, Germany, China, South Korea, Colombia, and Brazil.

Mexico is in the Top 15 countries with the largest territorial extension. Its vast natural resources and privileged geographical position make it one of the most attractive investment destinations.



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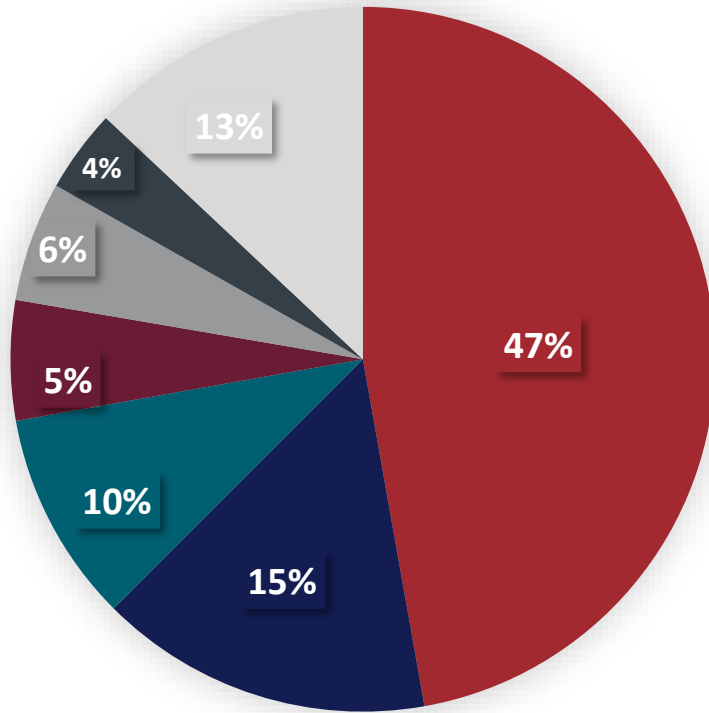


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2nd

**Mexico is Latin America's
second-largest economy after
Brazil.**





Principal investments in Mexico per sector

- Manufacturing
- Financial services and insurances
- Commerce
- Mass media information
- Mining
- Water, gas, and electricity generation

INEGI
2003-2020

12

free trade agreements
with 46 countries.

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Mexico is a member of these trade agreements, among others:



USMCA: United States-Mexico-Canada Agreement.

OECD: The Organization for Economic Co-operation and Development.

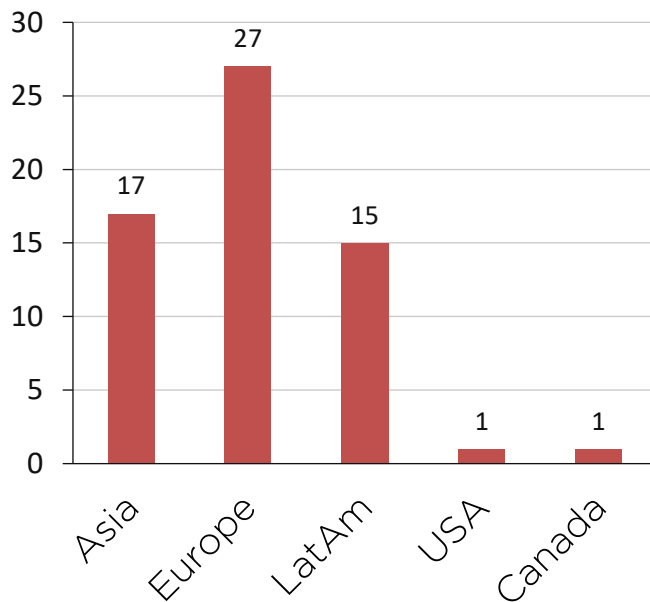
The G20: The Group of 20. The primary forum for deliberations on international and economic policies.

The Pacific Alliance: made up of Chile, Colombia, Mexico, and Peru.

FTA EU-MX: The Free Trade Agreement between Mexico and the European Union.

EFTA: The European Free Trade Association with Mexico.

CPTPP: The Comprehensive and Progressive Trans-Pacific Partnership Agreement.

DOUBLE
TAX
TREATIES

Mexico has in force 62 tax treaties to avoid double taxation and to reduce withholding rates.

Requirements in Mexico
to apply the benefits of
Double Tax Treaties.

- Certification of the taxpayer's residence abroad.
- Compliance with tax obligations.
- ISSIF or Tax Report obligations. Manifestation of foreign taxpayer, for operations between related parties.



CANIADA

Canada

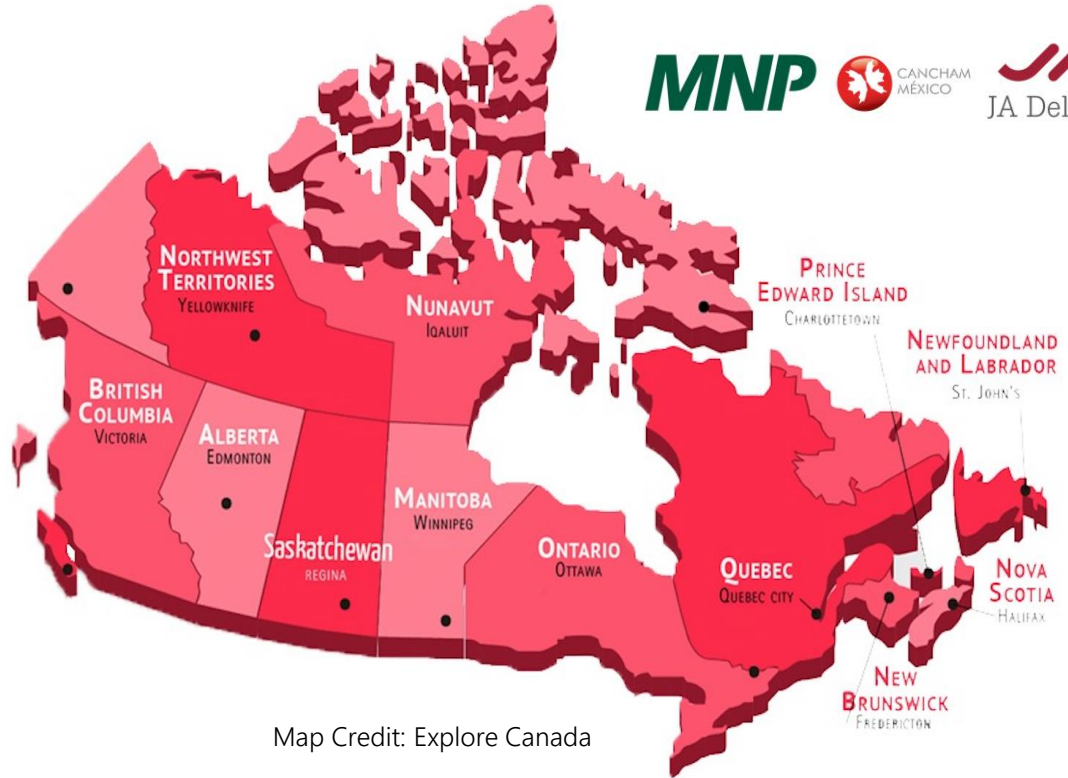
A Snapshot

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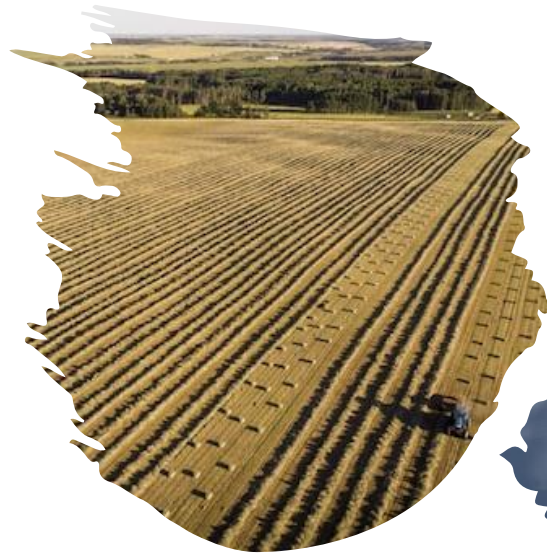
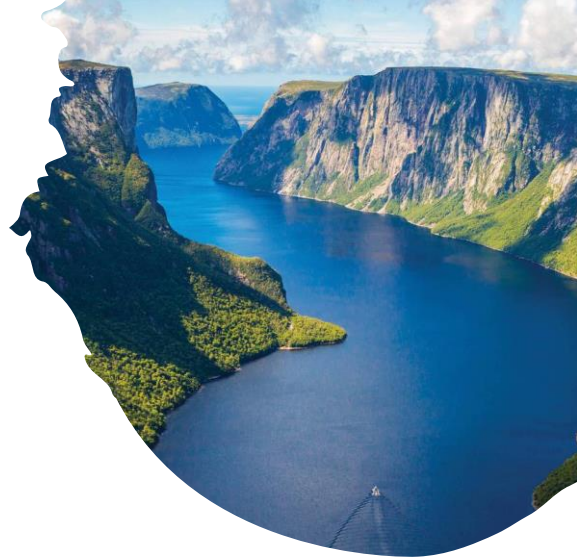
- Population: 39 million
- GDP per capita: US\$55k
- Key industries:
 - Energy (oil & gas, petroleum)
 - Automobile
 - Manufacturing
 - Mining
 - Banking & financial services
 - Food processing
 - Agriculture
- Best hockey team in the world



Map Credit: Explore Canada

Investing in Canada, Eh?

- Ranked 3rd in the world in quality of life & highest amongst G7 nations (US News, 2023)
- One of the most educated workforces in the world (Statistics Canada 2022, Newsweek 2021, OECD 2018)
- One of most stable banking systems in the world (World Economic Forum)
- Lowest business cost in digital, research & development, manufacturing & corporate services (Invest in Canada)



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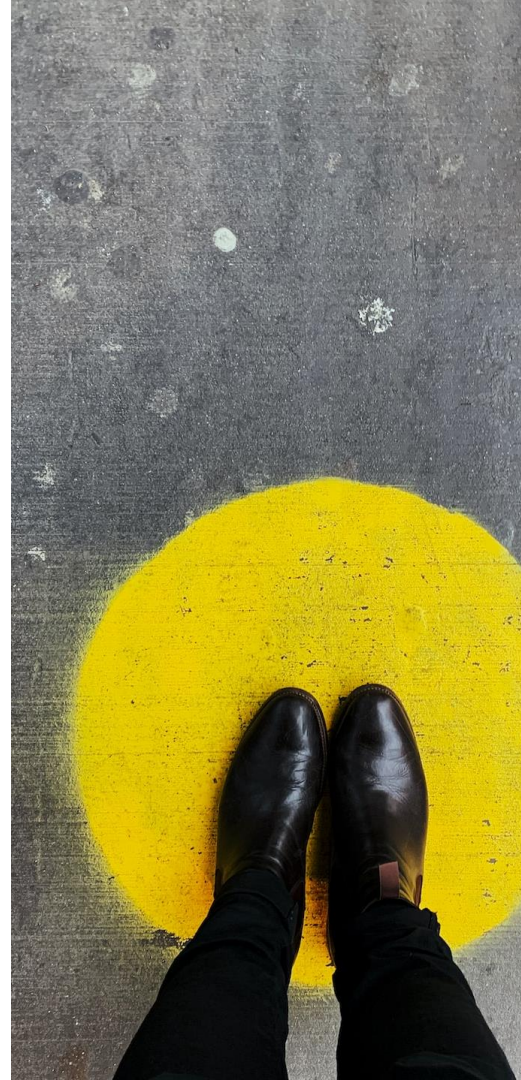
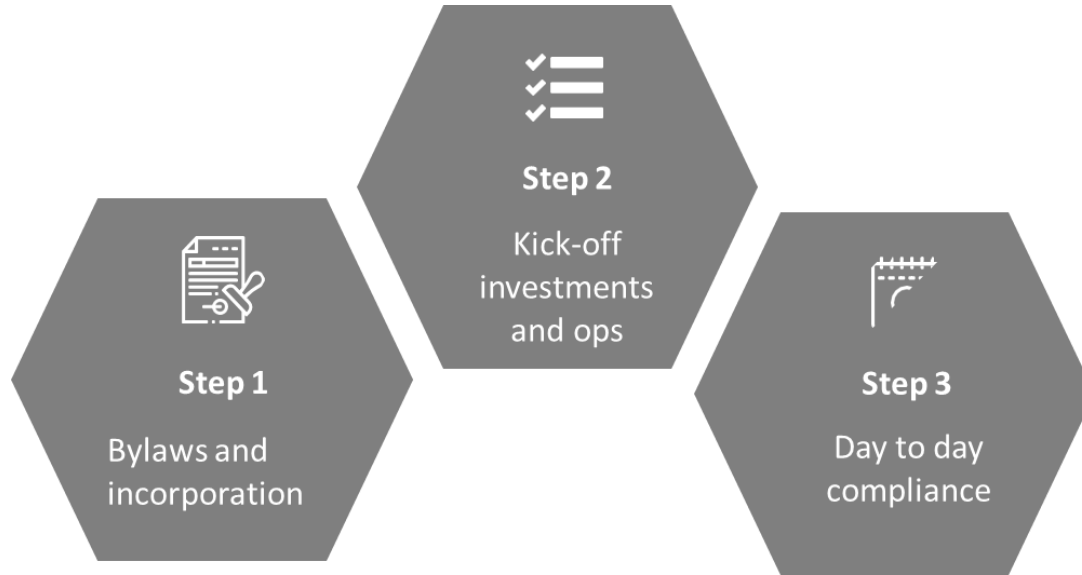
The background of the slide is a photograph of a circular architectural structure, possibly a dome or a large atrium. It features a central circular skylight that is bright white. The surrounding structure is made of grey concrete or stone and is punctuated by numerous rectangular windows arranged in a circular pattern. At the top and bottom of the central skylight, there are two identical circular decorative motifs, each with a complex, geometric, and somewhat floral design.

**Relevant tax and
corporate aspects
to consider when
doing business in
Canada and Mexico?**

Venturing into Mexico



Venturing into Mexico





Types of business corporations

- Limited Liability Company

(Acronym in spanish: Sociedad de responsabilidad limitada / S. de R.L.).

Most common used by foreign investor.

- Corporation entity

(Acronym in Spanish: Sociedad anónima / S.A.)

- Others S.A.P.I. (dividend payments)
- Trust & Joint Venture agreements



Start-up items

Accounting and Tax Advisor



***Most of these steps are carried out by external counsel and tax advisors**

Income Tax

- Corporate tax rate 30%
- Worldwide taxable income
- Tax payment procedure- monthly and annually
- Profit ratio for calculating estimated monthly payments
- Revenue recognition
 - When issuing an invoice
 - When providing a service or delivering goods
 - Collection (totally or partially paid)
- Authorized Deductions
 - Cost of sales
 - Depreciation of assest
 - Foreign charges (royalties, interests, management fees, intercompany charges)
 - Others



Dividend tax rate

There is a 10% withholding for dividend payments:

- It would not apply to profits generated prior to 2014.
- Applies to the distribution of dividends made by Mexican companies to Mexican individuals and foreign shareholders, not to other Mexican companies.
- Treaties for avoiding double taxation would allow a tax exemption or the application of a lower rate (subject to compliance with requirements).

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Employee Profit Sharing (PTU)

- In accordance with the **Federal Labor Law**, companies are **obligated to distribute 10% of their net earnings** generated during the year to their employees.
- **No later than May 31** of the immediately subsequent year.
- As of August 1, 2021, derived from the Labor Reform in Mexico, it was established that the workers' PTU payments shall not exceed either:
 - Three months of the worker's salary, or
 - The average of the worker's last three years' salary.

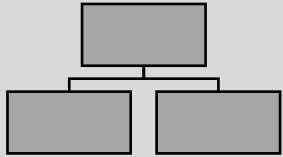


An aerial view of a city skyline, likely Vancouver, featuring various high-rise buildings. A prominent white rectangular box is overlaid in the center, containing the title text. In the background, two construction cranes are visible against a hazy sky. The buildings in the foreground show a mix of architectural styles, including glass facades and solid-colored facades. Some buildings have visible signage, such as 'Bell', 'Manulife', and 'HOTEL OMNI'.

Canadian Tax & Corporate Considerations

Key Considerations

Structure



Money



People



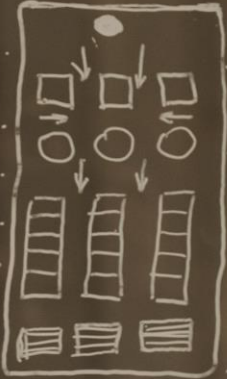
Goods & Services



Structure

Common Legal Entities & Arrangements for Business in Canada

- Limited liability corporation (e.g., Limited, Ltd., Inc., etc.)
- Unlimited liability corporation (ULC)
- Partnership (limited partnership & general partnership)
- Joint venture



Structure Canadian Tax

- Federal & provincial income tax – generally between 25% to 27%
- Withholding tax / branch tax (5% to 25%)
- Goods & services tax, harmonized sales tax & provincial sales tax
- Social security (CPP & EI)
- Other provincial taxes (employer health, etc.)



People

Canadian Employees of Canadian Entity

- Employment agreements
- CRA payroll account & remittances

Foreign Employees of Canadian Entity Working in Canada

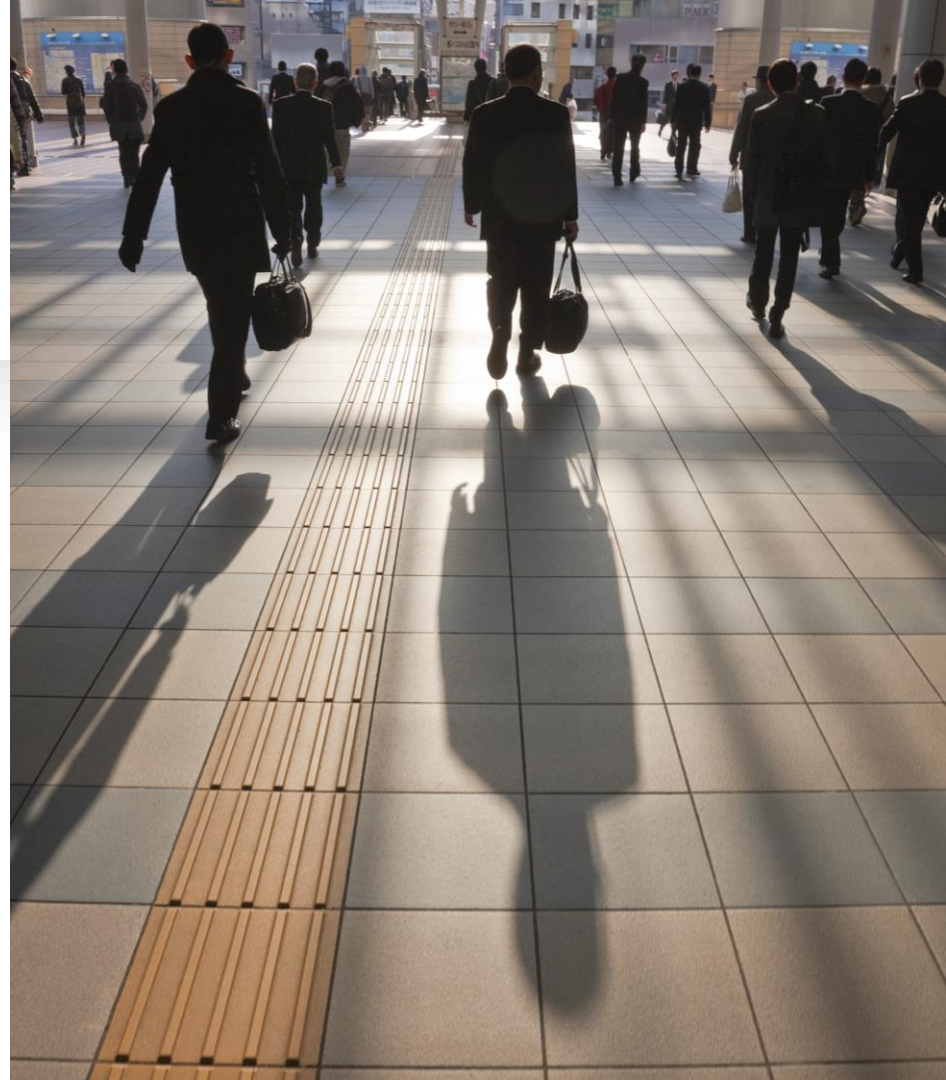
- Employment agreements
- Check immigration/visa requirements
- CRA payroll account & remittances
- Tax implications & reporting for employee



People

Foreign Employees of Foreign Employer Temporarily Working in Canada

- CRA payroll account
- Reg. 102 Canadian employer withholding tax obligations & RC473 blanket waiver
- Reg. 105 Canadian withholding tax on non-residents performing services in Canada & waiver
- Transfer pricing considerations & intercompany agreements / secondment arrangement



Goods & Services

- Goods & Services Tax (GST) / Harmonized Sales Tax (HST) & Provincial Sales Tax
 - Federal GST registration & set-up
 - Provincial HST & sales tax registrations & set-up
 - Rates vary depending on province
- Customs & duties
- Transfer pricing / intercompany arrangements



The image shows a circular architectural structure, possibly a dome or a large atrium, viewed from a low angle looking up. The structure is composed of a series of concentric rings of windows or openings. The central opening is a large, bright white circle. Two decorative circular motifs, resembling stylized sunbursts or compass roses, are positioned at the top and bottom of the central white circle. The text "Structuring - investment and return of capital strategies" is centered within the white circle in a bold, dark blue font.

**Structuring -
investment and
return of capital
strategies**



Structuring Mexico

How to invest in a Mexican company?

Support documentation



Capital increase

- Minutes of assembly
- Effective payment
- Increase of tax attribute
CUCA



Contribution for future capital increase

- Minutes of assembly
- Effective payment
- Possible divestment
- Annual inflationary effect



Debt

- Agreement
- Determination of interest at market value
- Interest deductibility limits
- Withholding

Local rules



CFC RulesREFIPRES	Transparent entities 4A MITL Mexico as Source	Transparent entities 4B MITL Mexico as Residence
<p>Income subject to preferential tax regimes is considered to be income that is not taxed abroad or is taxed at an income tax rate lower than 75% of the income tax that would be payable in Mexico (22.5%).</p>	<p>Entities of this nature will be subject to domestic tax provisions and will have tax liabilities and obligations equivalent to those of entities resident in the country.</p>	<p>Residents in Mexico and residents abroad with a permanent establishment in the country for the income attributable to the same. Are obligated to pay the tax in accordance with this Law, for the income they obtain through foreign tax transparent entities in the proportion that corresponds to them for their participation in them.</p>
<p>a) UBO Mexican Tax Resident b) Foreign resident lower rate % IT.</p>	<p>It grants the treatment of opaque entities in Mexico for purposes of the Mexican Income Tax Law.</p>	<p>CFC rules for transparent entities.</p>

How to divest / return of capital?



Capital redemption

- Taxable or not depending on the application of the capital reduction rules IT Law.
- Reduction in excess of the company's tax attribute balances (CUFIN and CUCA).



Dividends

- Free of IT - balance of the Net Tax Profit Account (CUFIN).
- Sufficient retained earnings in accounting.
- Cash flow in monetary assets.
- Any distribution in excess of the CUFIN account will be subject to IT.
- Withholding tax (shareholder resident abroad or individual).



Foreign payment

- Agreement
- Possible withholding.
- Double Tax Treaty analysis.
- Support documentation.
- Documentation benchmarking.

A man in a white shirt and glasses is shown in profile, looking out a large window in a modern office. The office has large windows and modern lighting fixtures. A red banner is overlaid on the image, containing the text "Canadian Tax Considerations".

Canadian Tax Considerations

Money

Financing Canadian Businesses

- **Intercompany debt**
 - Interest deductibility
 - Withholding tax generally applicable on interest on cross-border debt
 - Transfer pricing
 - Legal documentation
- **Third-party debt**
 - Interest deductibility
 - Generally, no withholding tax
- **Equity**
 - Legal documentation



Money Repatriation

Intercompany Debt

- Generally, no restriction on repayment
- Foreign exchange gains/losses
- Receivables potentially subject to withholding tax - need to manage timing of repayment



Money

Repatriation

Equity

- Return of paid-up capital not subject to withholding tax
- Withholding tax on dividends



The image shows a circular architectural structure, possibly a dome or a large atrium, viewed from below. The structure is composed of a series of concentric rings of windows or openings. The central opening is a large, bright white circle. Two decorative circular motifs, resembling stylized sunbursts or compass roses, are positioned at the top and bottom of the central circle. The overall color palette is muted, with greys and whites, and the lighting is soft and even.

Investment incentives Canada and Mexico

Investment incentives México



Foreign Investment Incentives



IMMEX program and its VAT and IEPS certification

The Manufacturing, Maquiladora and Export Services Industry program (IMMEX), authorized by the Economic Secretariat, allows temporary imports of merchandise or

machinery with production processes and/or services to export merchandise or provide export services with the main benefit of not paying or deferring the general import tax.

When the VAT and IEPS Certification, authorized by the SAT, complement the IMMEX program, it allows not to pay the Value Added Tax (VAT) for temporary imports, and the tax authority grants a credit of 100% of the tax that must be paid for VAT.

The authority has created the IMMEX program and the VAT and IEPS certification to promote the establishment of companies in Mexico, granting administrative and tax benefits, among which we can list:

Authorization	Benefit
IMMEX Program	Exempt compliance with Official Mexican Standards in temporary importation.
	Decrease of duties' payment at import customs.
	Import of supplies and machinery under the temporary regime.
	The import tariff will not be paid for goods to be exported, only goods remaining in Mexico or regulated in Treaties.
VAT and IEPS certification	Possibility of applying the benefits in the Income Tax (In Spanish: ISR) under the Safe Harbor scheme (minimum income tax).
	Exception from the payment of value-added tax on imports (credit application to be settled at the time of exporting the good)
	Special administrative procedures for the swift exit of merchandise from customs.

Foreign investment incentives

Sectoral Promotion Programs, [in Spanish: PROSEC]

The Sectoral Promotion Programs (PROSEC) are aimed at companies producing certain goods or machinery allowing them to import various goods for their use in the manufacturing of specific products with preferential ad-Valorem tariffs (General Import Tax), regardless of whether the goods to produce are for export or domestic market.

Refund of Import Taxes to Exporters, DRAWBACK

Offers the possibility of obtaining a General Import Tax refund paid for the goods incorporated into export merchandise.

Trusted Trader (Authorized Economic Operator), AEO

This program seeks to strengthen the foreign trade logistics chain by implementing recognized international security standards. Some of its benefits are the extension of the

permanence of temporary merchandise, use of FAST lanes at customs, fewer reds at customs, priority given to AEO companies in the event of contingencies, elimination of import documentation, and petition rectifications without the need for authorization, among others.

Free trade agreements

Mexico has a network of 14 Free Trade Agreements with more than 50 countries allowing the import of goods originating from these countries with preferential import tariffs and, in some treaties, no payment of customs duties (DTA). Using the treaties when a product qualifies as originating to export will grant benefits to be more competitive in the destination country by taking advantage of the tariff benefits.



Canadian Investment Incentives

Tax & Industry Incentives

- Federal scientific research & experimental development tax credit
- Federal & provincial accelerated tax depreciation for manufacturing
- Other federal incentive (e.g., clean energy)
- Regional incentives
 - Investment & innovation tax credits
 - Capital investment
- Industry specific incentives
 - Film, multi-media & digital, farming, fishing, etc.



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Thank You! Gracias!