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DOING BUSINESS IN MEXICO

Key legal considerations to establish or acquire a business in Mexico

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Introduction

Mexico, a land of rich culture, innovation, and economic potential, has become an attractive destination for entrepreneurs and corporations seeking to establish or acquire businesses in a diverse and dynamic market. However, entering the Mexican business landscape requires a comprehensive understanding of the intricate legal and regulatory aspects that shape the environment for foreign investors.

We have structured this guide into six main sections, each addressing vital legal considerations and requirements for successfully establishing or acquiring a business in México:

- *Incorporation of a Mexican Subsidiary Company*: Exploring corporate structuring to establish a robust business foundation in México.
- *Exercise of Powers of Attorney in Mexico*: Understanding the legal framework for effective decision-making and representation in the Mexican legal system.
- *Corporate Tax Overview*: Offering insights into corporate taxation to formulate tax-efficient strategies while adhering to Mexican tax laws.
- *Labor, Social Security & Immigration*: Addressing labor practices, social security, and immigration processes for a seamless workforce transition.
- *Foreign Trade & Customs*: Navigating foreign trade practices and customs regulations for successful import and export operations in México.
- *Environmental Regulations*: Exploring Mexico's environmental standards to ensure compliance and integrate sustainable practices into business operations.

Whether you're a seasoned business professional or embarking on your first venture in Mexico, this document, "Doing Business in México: Key Legal Considerations," equips you with the knowledge and guidance necessary to navigate the legal landscape and seize the opportunities available in this diverse and promising market.

SECTION 1

Incorporation of a Mexican Subsidiary Company

One of the main advantages of conducting business in Mexico through a subsidiary company is that said subsidiary shields its parent companies or partners/shareholders from liability. This is because the Mexico considers the Subsidiary Company as a different entity with its own and independent legal personality. It is to be considered that, in Mexico, piercing the corporate veil would only happen under specific circumstances, for example, when the Subsidiary Company is used for illegal or criminal purposes.

a) Distinctions between the two most common business enterprise types used in Mexico

Mexico's General Law of Commercial Companies ("GLCC") recognizes six types of commercial enterprises. The most recommended and common business enterprises used in Mexico by foreign investors are the "Sociedad de Responsabilidad Limitada" or "S. de R.L." and, the "Sociedad Anónima" or "S.A.". These companies have the following general characteristics:

- In Mexico, these entities have the same tax treatment and obligations. Nevertheless, from the U.S. tax standpoint, an S. de R.L. may be treated as a pass-through entity (check the box benefit), and therefore, may offer some tax benefits for investors that come from the U.S. or have all or part of their Financial and/or corporate scheme in the U.S.
- From a liability perspective, both entities bind their partners equally since the shareholders or partners are responsible for the companies' liabilities up to the value of their equity quota or shares.
- Furthermore, partners or shareholders of both types of entities can be liable for the tax contributions generated from the companies' activities for the period of time where they had such capacity.
- For reference purposes, Mexico's S. de R.L. is very similar (but not equal) to the U.S.A. limited liability company and, Mexico's S.A. would be similar to the U.S.'s stock corporation.

Please find below a comparison analysis between the S. de R.L. and the S.A.

SOCIEDAD DE RESPONSABILIDAD LIMITADA (S. de R.L.) **Limited Liability Type Company**	SOCIEDAD ANÓNIMA (S.A.) **Stock Corporation**
Capital	
There is no minimal capital requirement. Both companies may be organized with variable capital vis-à-vis their fixed capital counterparts. The significant difference between a fixed capital commercial company and a variable capital one is that in the fixed capital companies the maximum amount of capital is fixed and specified in its Bylaws, and any subsequent increase or decrease in the capital requires an amendment to the Bylaws. Conversely, the bylaws of a variable company set a fixed amount of minimum capital, but the maximum or variable capital may be unlimited and may be increased or decreased by the partners' or shareholders' (as the case may be) resolution without amending the Bylaws. While an amendment to the Bylaws to increase the capital of a fixed capital stock company is also made by partners' or shareholders' resolution, such amendment must also be registered at the Public Registry of Commerce, which entails paying registration and notarial fees in accordance with the amount of the increase. For this reason, foreign investors, particularly those with wholly owned subsidiaries, that want the flexibility of increasing or decreasing the capital stock without amending the Bylaws, generally incorporate their companies in the form of a variable capital company rather than a fixed capital company.	
Capital Stock Requirements and Characteristics	
The capital stock is divided in two: fixed and variable. The minimum fixed capital is determined in the bylaws and is obligatory to maintain.	There is no minimum capital requirement. The capital stock is divided into fixed and variable. The minimum fixed capital shall be determined in the bylaws and is obligatory to maintain.
Capital stock is represented by **equity quotas** that may be of different value and category; but in any case, it must be of at least MXN $1.00 Mexican Peso or a multiple thereof.	Capital stock shall be represented by **shares of stock** that may be of different value and category; but in any case, it shall be of at least MXN $1.00 Mexican Peso or a multiple thereof.

SOCIEDAD DE RESPONSABILIDAD LIMITADA (S. de R.L.) **Limited Liability Type Company**	SOCIEDAD ANÓNIMA (S.A.) **Stock Corporation**
Capital Stock Requirements and Characteristics	
When the Company is incorporated, at least 50% (fifty per cent) of the value of each equity quota must be fully paid.	When the Company is incorporated, at least 20% (twenty per cent) of the capital contributions must be paid in cash. If part of the contributions is paid in kind, they must be subscribed and provided in full on the incorporation date.
The equity quotas may be represented through certificates, which shall not be negotiable.	The shares of stock must be represented through certificates, which are considered as freely negotiable instruments unless otherwise specified in the company's bylaws.
The assignment of the equity quotas as well as the admission of new partners requires the prior authorization of the majority of its partners. It could be a higher percentage in accordance with the company's bylaws.	The assignment of the shares of stock may be done by a simple endorsement and requires no prior authorization of the shareholders or the Board of the company, unless otherwise provided in the company's bylaws.
Number of Partners/Shareholders	
The S. de R.L. can have a minimum of two and maximum of fifty (50) partners.	The S.A. should have a minimum of two shareholders and, there is no limitation for the maximum number of shareholders that an S.A. could have.
Because of its nature as a limited liability company, this type of company is not allowed to go public, i.e., to participate as an issuer of stock on the Mexican Stock Exchange. Unless expressly limited by Mexico's Foreign Investment Law and its regulations, it is irrelevant whether partners of a limited liability company are Mexican or foreigners.	Unlike the S. de R.L., only an S.A. is the only one authorized to become a public company under Mexican law, and for such purposes it must comply with several other requirements, including amendment of its bylaws. Unless expressly limited by Mexico's Foreign Investment Law and its regulations, it is irrelevant whether shareholders are Mexican or foreigners.
Management Structure	
Unless otherwise established in the bylaws, in the S. de R.L. there is only one type of Partners' Meeting, which can deal with all matters necessary.	In the S.A. there are mainly two types of Shareholders' Meetings: Ordinary and Extraordinary. The matters to be discussed determines the type of the Meeting to be held and the applicable quorum. In addition, special Shareholders' Meetings are set forth by the law when different series of shares exist.
The management of an S. de R.L. may be entrusted to one individual (Sole Director) or to two or more managers (comprising the Board of Directors). The authority conferred to the Sole Manager or the Board of Managers, as the case may be, is set forth in the company's bylaws or as granted by the partners in a Partners' Meeting or resolution taken out of a Partners' Meeting.	The management of an S.A. may be entrusted to one individual (Sole Manager) or to two or more directors (comprising the Board of Directors). The authority conferred to the Sole Manager or the Board of Managers, as the case may be, is set forth in the company's bylaws or as granted by the shareholders in a Shareholders' Meeting or resolution taken out of a Shareholders' Meeting.
General Manager/Director. For both types of companies, the General Manager/Director is usually the person in charge of running the company and the day-to-day decisions related to its operation. The General Manager/Director will only have the powers of attorney expressly granted to him/her by the Partners' or Shareholders' Meeting or by the Sole Manager/Manager or the Board of Managers/Directors, as the case may be.	

SOCIEDAD DE RESPONSABILIDAD LIMITADA (S. de R.L.) **Limited Liability Type Company**	SOCIEDAD ANÓNIMA (S.A.) **Stock Corporation**
Management Structure	
Other Managers. Other managers may be appointed by the Partners or Shareholders, or by the Sole Manager/ Manager or Board of Managers/Directors, as the case may be, to perform specific activities, such as: Finance Manager, Accounting Manager, Industrial Relations Manager and Personnel Manager. Just as with the General Manager, such managers only have the powers of attorney expressly granted to them.	
Attorneys-in-fact. An attorney-in-fact is any person, whether an employee or officer of the company, who is authorized to act in the name and on behalf of the company under a power of attorney. Attorneys-in-fact can be appointed by the Partners' or Shareholders' Meeting or by the Sole Manager/Manager or the Board of Managers/ Directors, as the case may be, to perform specific duties or tasks. The authority of these attorneys-in-fact is governed by the power of attorney which they are granted.	
Examiner. Mexican law does not require appointing a statutory examiner in the S. de R.L. However, if the bylaws provide for the existence of an examiner, partners shall appoint him for the protection of their interests. Please note that under Mexican law, there are certain legal requirements and restrictions to be an examiner.	**Examiner**. The appointment of one or more statutory auditors or examiners is required by law. The statutory auditors' main role is the supervision of the company's administration and operations for the protection of the shareholders' interests. Please note that under Mexican law, there are certain legal requirements and restrictions to be an examiner.
Early Dissolution and Liquidation	
Certain events that occur directly to the partners may result in an early dissolution and liquidation of the company if not excluded in the bylaws.	The personal events of the shareholders (i.e., death or bankruptcy) will not render the dissolution or liquidation of the company.

The foregoing comparison between an S. de R.L. and an S.A. refers mostly to corporate issues. As you can see, one company does not offer substantial benefits over the other if the Mexican subsidiary will be a wholly owned subsidiary (through two or more of its entities) where all the capital stock and management responsibilities are subject to the same company group. The only difference would be the tax benefits in the U.S., as discussed above.

b) Incorporation of the Mexican Subsidiary

Following are the steps to incorporate of a Mexican subsidiary:

A. A permit from the Ministry of the Economy ("SE") approving the Mexican subsidiary's name. To obtain the permit, a formal request must be made. We recommend submitting three or four alternative names (to be provided by you). If the ME considers that one or more names are not similar to one of the current names in Mexico, the ME will issue the permit in order for the Mexican Subsidiary to be incorporated.

B. Although not mandatory, we strongly recommend performing an availability search with the Mexican Industrial Property Institute to ensure that there are no trademarks or trade names, that are the same as, or similar to, the name proposed for the Mexican Subsidiary. Pursuant to the Industrial Property Law, the owner of a previously registered trademark or trade name has the right to prevent third parties from using a name which is the same or similar (even in part), as well as the right to seek compensation for the damages that the unauthorized use of the trademark or trade name may cause them.

C. To finalize the draft Articles of Incorporation and Bylaws, we would need from you the following information:

1. Names: As stated above.

2. Corporate address: For example a city. The street address of the Mexican Subsidiary's main office is required to register the Mexican Subsidiary for tax and other purposes. If you have no address, accounting firms in Mexico can provide a provisional tax address.

3. Corporate purpose: A brief description of the Mexican subsidiary's main activities is required from you to include the corporate purpose in the Bylaws.

4. Name of Partners/Shareholders: As previously mentioned, the GLCC requires at least two partners or shareholders, either individuals or legal entities, to organize the Mexican Subsidiary. The capital equity of the Mexican Subsidiary may be distributed between/among the partners or shareholders in any manner.

5. Capital Stock Requirements: The initial capitalization of the Mexican Subsidiary shall be stated in its Articles of Incorporation and Bylaws in the amount deemed convenient by the partners or shareholders. Furthermore, we need confirmation of whether the Mexican Subsidiary will be organized with variable capital.

6. Management: Please advise us of the management structure of the Mexican Subsidiary. Moreover, be informed that the

Manager(s), Manager(s) or directors may be either Mexican or foreign nationals.

7. Officers: Mexican law does not require that any officers be appointed for the Mexican Subsidiary, but it is customary for a General Manager (General Director), a Secretary and an Assistant Secretary to be appointed. Any other officers may be appointed as desired.

8. Powers of Attorney: Under Mexican law as a rule, the appointment of a director or officer does not empower the individual to represent the company in any way. Powers of attorney must be granted to each individual. Different types of powers of attorney exist under Mexican law. For details please refer to ***Section 2. Exercise of Powers of Attorney in Mexico***, immediately following this Chapter.

We will be pleased to discuss with you the appropriateness of granting powers of attorney.

9. Statutory Examiner: In the event you decide to incorporate an S.A. or have a statutory examiner in an S. de R.L. please provide us the name of said statutory examiner. Note that it is common for this position to be held by an individual from the accounting firm that will audit the Mexican Subsidiary's books and records.

D. To formalize the Articles and Bylaws, the founding partners or shareholders must appear before a Mexican Notary Public or Public Broker. The shareholders or partners may be represented by members of this firm by the granting special powers of attorney. For these powers of attorney to be granted, we will need you to notarize the text provide by our Firm before a local Notary Public and legalize or apostille, as applicable, said document before sending the originals to Mexico.

E. Once the Mexican Subsidiary has been incorporated, its Incorporation Deed must be filed with the Public Registry of Commerce and Property (PRPC), and the Mexican Subsidiary must be registered with the Ministry of Finance and Public Credit ("Hacienda"), the Social Security Institute, the Worker's Housing Institute, the National Registry of Foreign Investment, and the state tax authorities, among other governmental entities.

F. Once the Incorporation Deed is registered with the PRPC and Hacienda (and hence obtains a Tax ID), a bank account may be opened on behalf of the company in order for the initial capital stock of the company to be transferred to said bank account.

SECTION 2

Exercise of Powers of Attorney in Mexico

Mexico has strict formalities that must be satisfied in order for an individual to represent or take actions in the name and on behalf of a company or legal entity. Generally, powers of attorney must be expressly granted and notarized before a Mexican notary public in order for representatives of the company, including managers, employees, agents and legal counsel, to act on behalf of the company (i.e., the sole appointment in such capacities is not enough). Additionally, the Board of Directors/Managers or the Sole Director/Manager is normally granted with powers of attorney pursuant to the Bylaws. The following is a description of the different powers of attorney that may be granted by Mexican companies:

a) Types of Powers of Attorney

The powers of attorney provided for under Mexican law are:

(i) General Powers of Attorney

With a general power of attorney, the attorney-in-fact may carry out an undetermined range of acts in relation to their purpose. There are three types of General Powers of Attorney:

(i.a) General Power of Attorney for Lawsuits and Collections:

This type of power of attorney permits the attorney-in-fact to represent the company in lawsuits, arbitrations, conciliations, etcetera, by means of the following actions: a) to withdraw; b) to settle; c) to settle in arbitrations; d) to acquit and propound interrogatories; e) to recourse; f) to receive payments; and to initiate and withdraw an amparo lawsuit, file complaints and criminal complaints and withdraw them, file accusations, become an assistant prosecutor, and to drop claims against a claimee.

(i.b) General Power of Attorney for Acts of Management:

This type of power of attorney permits the attorney-in-fact to carry out the ordinary administration and management acts of the company, such as signing contracts, carrying out acquisitions required in the ordinary course of business, executing labor agreements and collective labor contracts, dismissing personnel, and appointing managers, executives and officers, and the like.

(i.c) General Power of Attorney for Acts of Ownership:

This power of attorney allows the attorney-in-fact to act as if he/she was the grantor, and may sell, donate, or exercise any other act of ownership over the assets of the company, including the ability to buy, sell, rent, donate and mortgage real estate.

(ii) Special Powers of Attorney

A special power of attorney is a 'custom made' power of attorney, which is restricted exclusively to a specific matter or area, explicitly stipulated in the power granted, i.e., "the Company grants a power of attorney to Mr. John Smith to proceed to pay, on behalf of the Company, the real estate tax related to its industrial plant located in Mexico City, Mexico", or, "The Company grants a special power of attorney to Mr. John Smith to register the workers of the Company before the Mexican Social Security Institute". Two of the most common Special Powers of Attorney are:

- Execution of negotiable instruments: This PoA allows the attorney-in-fact to sign, issue, cancel, guarantee and/or endorse on behalf of the company any type of negotiable instrument.

- Open and close bank accounts: To open, manage and close domestic or foreign bank and investment accounts of the company in Mexico or abroad and to appoint the authorized signatories on such accounts.

b) Policy for Granting Powers of Attorney

Depending on the general policy of the applicable company, it is generally recommended that the Chairman of the Board of Directors/Managers or the Sole Director/Manager be given powers of attorney for lawsuits and collections, acts of administration, on matters related to negotiable instruments and a special power of attorney to open and close bank accounts, as well as the authority to grant/delegate all types of powers of attorney within his/her authorities.

It is also recommended to grant to the Mexican legal counsel powers of attorney for lawsuits and collections to avoid cumbersome formalities particularly in the event urgent situations arise requiring immediate action.

c) Ways to exercise Powers of Attorney

In Mexico there are two ways to exercise a power of attorney:

(i) Individually, and

(ii) Jointly (needs two or more attorneys-in-fact to be valid)

Please note that the limitations or requirements for the exercise of a Power of Attorney can be set by the company grantor freely and in compliance with its own policies and regulations, for example, not only on joint signatures (e.g., signatories A+B, two signatories A, etc.) but there can also be limitations on the value of the acts that can be carried out or even a term or limitation on duration of the PoA.

SECTION 3

Corporate Tax Overview

a) Tax Overview

Federal Tax:

- Corporate Income Tax of 30%, plus 10% tax on dividends paid to foreign tax residents and Mexican individuals.
- Resident individual's Income Tax, progressive up to 35%.
- Value Added Tax: exempt, 0% or 16%, 8% border rate for 2023.
- Federal Duties, applicable to mining operations among others.
- Special Goods & Services Tax (range from exempt up to 160%).
  - Beer and beverages with alcoholic content.
  - Tobacco.
  - Flavored drinks.
  - Green taxes - rate varies depending on toxicity danger.
  - Tax on 'non-essential high calorie food': 275 kcal per 100 grams.

Local and State Taxes:

- Payroll Tax (generally 0.5% to 3%, depending on the State).
- Real Estate Acquisition Tax (range from 1% to 4.5%, depending on the State).
- Real Estate Property Tax (from 0.1% to 1% annually, depending on the State/Municipality).

b) Mexican tax system

Persons subject to tax	Basis
Residents	World-wide income
Permanent Establishments	Attributable income
Non-residents without PE	Mexican Source income
No entity classification for Mexican tax purposes. In general terms, all entities are taxed alike[1]:	
Main types of entities:	
S.A. or S.A. de C.V.	Corporation
S.R.L. or S.R.L. de C.V.	Limited Liability Co.

Entity residence: Determined by place of effective management.

Individuals: Those who establish their home in Mexico are deemed residents. Restrictions to lose Mexican tax residency upon relocation to low tax jurisdictions.

Presumption of residence in Mexico for Mexican nationals.

[1] Special tax regime for primary sector and low-income corporations ("Incorporation regime").

c) Corporate Income Tax (CIT) overview

Tax Base:

Taxable Income

(-)(Authorized Deductions*) – distortion: fringe benefit 47%-53% deduction limit

Taxable Profit

(-) (10% Employee Profit Sharing[2])

(-) (NOLs / 10-year carry-forward)

Tax Result

(*) Income Tax Rate 30%

(-) Tax Due for the Year

(=) Net After Tax Profit (UFIN** per its acronym in Spanish)

*Strictly indispensable costs, expenses and investments are deductible upon compliance with certain requirements, including several tax invoicing formalities, business reasons, and thin capitalization rules, among others. Restrictions on the deductibility of interest that exceeds the 30% of the Tax EBITDA and payments made to a low or no tax jurisdiction, are enforceable.

** The UFIN from the year and from past years is concentrated in a control account known as Net After Tax Profit Account (CUFIN per its acronym in Spanish). Because of the 2014 tax reform, 2013 and prior year CUFIN distributions will not incur tax on dividends; post 2014 CUFIN distributions will.

The CIT payment is due, through an annual tax return, with respect to the fiscal year ending on December 31st, except in cases of liquidations, mergers, and spinoffs. CIT annual tax return must be filed before March 31st. Advanced payments of estimated tax (monthly, quarterly, or biannual, depending on the tax regime) are made during the fiscal year as partial payments of the annual tax. If advance payments exceed the amount due, taxpayers may apply for the refund of the favorable balance by filing a refund request before the Mexican Tax Authority.

d) Branch or subsidiary?

Branch:

- Unless business activities are limited, deemed permanent establishment.
- Subject to corporate income tax and branch profits tax (dividends equivalent)
- Can deduct general administrative expenses incurred by home office.
- Cannot deduct payments made to home office for royalties, commissions, or interest. Tax treaties allow for deduction, but only when they constitute reimbursements.
- Force of attraction concern, tax liability exposure for principal.

Subsidiary:

- All legal entities are taxed alike. Except for S.A. or S.A. de C.V., other types of legal entities are "check-the-box" eligible for U.S. pass through treatment.
- 2014 and future profits, classical system for dividend taxation.
- Dividends paid from CUFIN among Mexican resident entities are not taxed.
- If dividends are not paid from CUFIN, paying entity must gross up and apply corporate income tax rate. Such tax can be offset through a credit during the following two years.
- Income determined on accrual basis (exception A.C. and S.C., cash basis).

e) Funding of a Mexican Subsidiary

Capital contributions

- Either in cash or in kind (tangible or intangible, movable or immovable property). Cash contributions do not trigger tax consequences. Contributions in kind are generally subject to income tax and value added tax on the disposition of the asset, on the differential between undepreciated cost basis and fair market value. A defense file of the contribution must be assembled. The defense file must include the bank statements that reflect the wire transfers of the contribution (in case of cash contributions), the valuation of the assets contributed in kind and the corporate and legal documents related to the operation.
- Returns
  - Capital redemptions. Taxable as a dividend with respect to the portion of capital redeemed that qualifies as profits. Taxpayers must conduct certain calculations aimed at identifying capital and profits upon each redemption.
  - Dividends. Subject to a 10% withholding tax, which can be decreased by a tax treaty application.
- Shareholders' loan
  - Interest payments to non-residents are deemed a source of taxable income in Mexico subject to withholding rates from 4.9% to 35% or 40% (explained below)
  - Interest is generally deductible on an accrual basis if certain conditions are met, as follows:
    - Loan terms and conditions must be agreed upon at fair market value based on the arm's length principle. Otherwise, interest may be recharacterized as dividends, on related party operations.
    - Back-to-back loan recharacterization of interest as dividends. This is also applicable for financing operations with no business purpose (see GAAR, ***section r***).
    - The loan must be connected with financing strictly indispensable activities (expenses, costs or investments) and justify its business reasons.
    - Tax invoicing requirements.
    - (3 to 1 debt-equity ratio). Some exceptions may apply for financial institutions, and for financing public infrastructure, energy and oil & gas projects. Taxpayers may also apply

[2] The 10% Employee Profit Sharing is capped at 3 months' salary of the participating employees, according to a special formula.

for an Advanced Price Agreement to improve their debt-to-equity ratio. Also, the integration of equity to calculate the ratio has restrictions, such as the subtraction of NOL´s pending amortization. This restriction tends to reduce the basis of capital and thus the threshold.

- o Deduction Limitation on net interest that exceeds 30% of the adjusted tax profit (EBITDA). The limitation applies on accrued interest that exceeds MXN$20,000,000 in a fiscal year. Exceptions generally apply to financial institutions, and for financing infrastructure projects.
- o Deduction Limitation on Interest paid to low or no tax jurisdictions (less than 75% of the applicable income tax in Mexico), except where financing qualifies as a business activity.
- o Debt capitalization operations must have a certification by a certified public accountant that validates the origin of the capitalized account payable

- Mexican Subsidiary must recognize taxable income from the inflation effect on the depreciation of the loan.

f) Dividends

- Pre-2014, dividends were not taxed in Mexico.
- 10% tax on dividends introduced in the 2014 tax reform.

Without treaty relief, the effective tax rate for non-residents is 37% (i.e., 30% CIT + 10% dividend tax on pre-taxed earnings that were taxed at 30% CIT, resulting in an effective additional rate of 7%)

- Resident individuals: 10% rate.
- Resident legal entities: no tax on dividends.
- Foreign residents: 10% rate, may be reduced by treaties.
- PE's: 10% branch profits tax on remittances from PEs in Mexico to foreign principal.
- 10% tax will only be levied on profits generated in 2014 onwards.
  - Pre-2014 profits registered in CUFIN until December 31st, 2013, will not be subject to dividend tax.
  - Required to keep a separate CUFIN from 2014.

Tax Relief					
Treaty	**Ownership**	Treaty	**Ownership**	Treaty	**Ownership**
Australia	≥10%	Hong Kong	- - - - - - - -	Singapore	- - - - - - - -
Bahrain	- - - - - - - -	Korea	≥10%	Slovak Republic	- - - - - - - -
Colombia	- - - - - - - -	Kuwuait	- - - - - - - -	Switzerland	≥10%
Denmark	≥25%	Lithuania	≥10%	U.K.	- - - - - - - -
Estonia	- - - - - - - -	The Netherlands	≥10% & part. exempt	U.S.	≥80%
Finland	- - - - - - - -	Qatar	- - - - - - - -		

Reduced withholding tax rates through Treaty, selected examples:					
Treaty	**Rate/Ownership**	Treaty	**Rate/Ownership**	Treaty	**Rate/Ownership**
Australia	5% / ≥10%	Germany	5% / ≥10%	Spain	5% / ≥10%
Barbados	5% / ≥10%	Hungary	5% / ≥10%	South Africa	5% / ≥10%
Belgium	5% / ≥25%	Ireland	5% / ≥10%	Sweden	5% / ≥10%
Canada	5% / ≥10%	Israel	5% / ≥10%	Ukraine	5% / ≥25%
Chile	5% / ≥20%	Luxembourg	5% / ≥10%	Uruguay	5%
Ecuador	5%	Panama	5% / ≥25%	U.S.	5% / ≥10%
France	% if French/ 5% if >50% foreign	Peru	5% / ≥25%		

g) Real estate disposition

- Gains from the disposition of real estate located in Mexico is subject to tax as capital gains at:
  - 25% of gross income
  - 35% of net income
- Pension and retirement funds that are tax exempt in their country of residence are exempt in Mexico on their interest, capital gains and income for granting the temporary use or enjoyment of real estate located in Mexico. Real estate must be held for a minimum period of 4 years for this exemption to apply.
- The consolidation of use rights ("usufructo") and naked property ("nuda propiedad") will also trigger capital gains for Mexican tax resident entities.

h) Capital gains

- Capital gains on the sale of shares or equity quotas of Mexican entities:
  - 25% of gross income (default option)
  - 35% of net income (alternative option)[3]
  - The disposition of foreign entities whose asset book value comprises more than 50% by real estate located in Mexico, is taxable in Mexico.
- Tax treaty exemptions for portfolio investment.
- Tax treaty cap on tax rate on net income (Netherlands and Switzerland 10% without portfolio exemption; Finland 20% rate with 25% portfolio exemption).
- Capital gains derived from the sale of shares in the stock market are subject to a 10% rate on gains, but amortization of losses is not permitted. The financial intermediary must withhold and pay the tax.
- The 10% capital gains tax on publicly traded shares does not apply if recipient is a resident of a treaty jurisdiction.
- Reorganizations:
  - Domestic law (tax deferral) or
  - Tax treaty, inherit cost basis, if treaty requirements are met. Tax Treaties with reorganization provisions included:

Hong Kong	Netherlands
Ireland	Spain
Latvia	Switzerland
Luxembourg	United States

Mexican statute requires that the Mexican tax resident participant on the reorganization must certify that the parties involved in the reorganization consolidate for financial purposes. A GAAR concerning business purpose of the reorganization was introduced.

- Mergers & Spin-offs:
  - National: Exempt. Spin-offs 51% continued equity interest holding from one year before and two years after the spin-off.
  - Foreign & cross border deemed taxable disposition of Mexican stock.

i) Interest

- The payment of tax on interest is made through withholding.
  - Interest paid to residents:
    - Interest paid by financial institutions. 1.45% rate.
    - Interest paid by non- financial institutions. 20% rate.
  - Interests paid to non-residents.
    - Rates range from 4.9% (interest paid to foreign banks and listed debt instruments) to 35%.
    - Interest paid to related parties located in a low or no tax jurisdiction 40% rate unless an automatic exchange of information agreement exists.
    - Withholding tax rate may be reduced or relieved under a tax treaty, generally to 10% or 15%.

j) Lease of goods

- Gross amount of the rental payment, for both movables and land, is taxed in Mexico at a 25% rate.
- Rental payments to related parties in a tax haven are taxed at a 40% rate unless an automatic exchange of information agreement exists.
- Treaties provide a 10% withholding tax rate on movables.
- Some treaties provide that real estate leasing is eligible to tax on a net basis as if it constituted a permanent establishment (e.g., under the U.S. treaty).
- Pension and retirement funds that are tax exempt in their country of residence are exempt in Mexico on their leasing, capital gains & interest income. The 2014 reform requires that real estate be held for a minimum period of 4 years for this exemption to apply.
- Lease of temporarily imported containers and trailers, as well as ships, airplanes, and railcars, 5% withholding.
- Lease of commercial airplanes. 1% withholding tax rate.

k) Royalty licensing

- Royalties paid to non-residents.
  - Patents and trademarks. 35% rate on gross income.
  - Royalties for leasing railway cars, temporarily imported containers, trailers and semi- trailers and authorized boats for goods and persons' transportation. 5% withholding tax rate on gross income.
  - Other kinds of royalties. 25% on gross income.
  - Royalties to related parties in a tax haven. 40% rate on gross income unless an automatic exchange of information agreement exists.
  - 10% and 15% rate under Treaties, if arm's-length.

[3] To qualify for this alternative a series of formalities must be met. Among the most relevant is the calculation of the profit/loss of the operation by a certified public accountant, providing such calculation to the Tax Administration and the designation of a legal representative in Mexico of the foreign taxpayer seller. The legal representative will be solely liable for any tax liability in Mexico of its representative and must have enough assets to respond to such hypothetical.

- Software:
  - Temporary use of copyrights for computer programs or instructions for operation of a program are taxed as royalties under MITL.
  - Attempt to extend OECD Commentary through 2003 observation.
- Treaties and OECD ≠ MITL:
  - Internal business use, not royalty.
  - Rights that enable the user to operate the program with no adaptation for such user, not royalty.
  - Commercial exploitation rights, taxed as royalty.

l) Technical assistance

- Gross withholding 25% MITL.
- A limited number of treaties treat it as royalty.
- Most treaties consider it as business profits (no withholding).
- Technical Assistance:
  - Personal and independent services in which the provider agrees to provide non-patentable knowledge that does not imply the transfer of confidential information relating to industrial, commercial or scientific experience, agreeing to participate in the application of the knowledge with the service provider.
- Court precedents:
  - Divided decisions. Federal Tax Court has ruled technical assistance taxed under the provisions of the MITL, and as business profits in other cases.
  - OECD 2010 Model Treaty's Commentary, develops the concept of "technical assistance" and extends it to an overall concept applicable to services.
- Deductibility limitations: Service must be provided by a registered entity or individual under the Registry of Specialized Service Providers (REPSE per its Spanish acronym) for the expense to be deductible.

m) Transfer pricing

- Related party transactions must be at arm's length.
- Transfer pricing follows OECD Guidelines.
- Approved methods:
  - Comparable uncontrolled price – preferred
  - Cost plus
  - Resale price
  - Transactional profits
  - Profit split
  - Transactional net margin
- Cost-Sharing with non-resident is forbidden under domestic legislation. The Supreme Court recently ruled on the issue and provided restrictive guidelines for the deduction. We expect

thorough scrutiny by the Tax Administration and litigious controversy.

n) Foreign legal vehicles and foreign transparent entities

- The tax regime applicable to foreign transparent entities (e.g., disregarded entities) and foreign vehicles (e.g., trusts or Canadian limited partnerships), eliminates tax transparency for foreign entities and vehicles, and they will now calculate and pay their taxes as separate legal entities subject to tax on their Mexican sourced income, unless a tax treaty provides for a transparency regime.

- Tax incentive to pension and private equity funds as well as other association agreements in Mexico, to grant tax transparency to foreign vehicles that manage private equity investments in Mexico, for interest, dividend, capital gains, or rental (immovable property) income.

- Entities or vehicles that are managed from Mexico are considered tax residents thereof.

- Income received from investments conducted through foreign transparent entities or foreign vehicles was separated from the non-transparent CFCs regime, being bound to anticipate the recognition without the exception provided in the CFC regime.

    - Transparent entities. Income will be accrued and taxed on tax profit for the calendar year, according to the rules set forth for Mexican legal entities.

    - Transparent legal vehicles. Income will be accrued in terms of the tax regime applicable to the taxpayer that has a participation in such vehicle and will be taxable in the calendar year in which the income is accrued, considering the tax deductions applicable for such legal figures.

    - Non-transparent legal vehicles: Income will be accrued and taxed on the tax profit for the calendar year, according to the rules set forth for Mexican legal entities.

o) Controlled foreign companies (CFC)

- Comprehensive CFC regime.

- Advanced income recognition if:

    - Controlled entity

        - Direct or indirect right to exercise more than the 50% of the total vote.

        - Direct or indirect right to more than 50% of the assets or profits.

        - Combination of both leading to 50% of such rights.

- Effective tax paid is below 75%.

    - Legal entities. 22.5%

    - Individuals. 26.25%

- The purpose is to challenge passive income deferral structures forcing anticipated income recognition.

- Active trade or business, and control exceptions are available. There are several requirements that must be complied with in order to qualify for the control exception. The historic active trade of business exception was restricted for entities that have most of their income arising from Mexico or that generate deductions in Mexico.

p) Permanent establishment and Maquiladoras

- The Income Tax Law provides foreign principals of companies performing Maquila IMMEX operations (temporary import of goods for their processing/transformation and further return abroad) permanent establishment relief if they comply with Mexican transfer pricing provisions.

- PE exemption benefit is limited to foreign principals that reside in a country that has a tax treaty with Mexico.

- Maquiladora companies comply with Mexico's transfer pricing statutes if safe harbor alternatives are met. Under these alternatives the Maquiladora must determine a tax profit of not less than the higher of the following:

    - 6.9% of the value of the assets u sed in the IMMEX operation (whether owned by the IMMEX entity, its related parties or by foreign residents); or

    - 6.5% of the costs and expenses associated with IMMEX operation.

- Maquiladora IMMEX companies can be structured to avoid PE altogether.

q) Disclosure of reportable schemes (Tax planning arrangements)

- Informative obligations require taxpayers and tax advisors to disclose reportable schemes.

    - Tax advisor: Any individual or legal entity that, in the ordinary course of its business, performs tax advisory activities and is responsible for or involved in the design, marketing, organization, implementation or administration of a reportable scheme or (ii) who makes such scheme available for a third party to implement.

    - Scheme: Any plan, project, proposal, advice, instruction or recommendation, expressly or tacitly expressed, with the purpose of materializing a series of legal acts.

    - Reportable schemes: Those that generate, or may generate, directly or indirectly, a tax benefit.

- Tax advisor will be required to disclose a reportable scheme by filing an informative tax return within 30 days following:

    - Generalized reportable schemes. The first marketing contact.

    - Personalized reportable schemes. The day the scheme is available to the taxpayer for its implementation or when the first legal act takes place.

- Taxpayers will be responsible for disclosing the reportable schemes when:

    - The tax advisor does not provide the reportable scheme ID number;

    - The taxpayer has designed, organized, implemented or administered the reportable scheme;

    - The reportable scheme is designed, commercialized, organized, implemented or administered by a non-resident;

    - The tax advisor is a non-resident;

- There is a legal impediment from the tax advisor that prevents the disclosure of the scheme; or
- The taxpayer undertakes the obligation to disclose the reportable scheme, relieving the tax advisor from doing so.

• Once disclosed, the reportable scheme will be given an ID number, which will have to be included by the taxpayer on its annual tax return for the year in which the first step of the reportable scheme was implemented and in all the other years impacted by the transaction.

r) General anti-avoidance rule (GAAR)

• A GAAR under which the Tax authority is entitled to re-characterize or consider nonexistent, for tax purposes, transactions that lack business purposes and that generate a tax benefit, according to their reasonable economic benefit.

- Tax benefit: Any reduction, elimination, or temporary deferral of taxes.
- Reasonable economic benefit: Transactions carried out by the taxpayers that generate income, reduces costs, increases asset value, or improves taxpayer´s market positioning.

• Lack of business purpose will be presumed to exist when:

- The expected quantifiable and reasonable economic benefit is lower than the tax benefit.
- The expected quantifiable and reasonable economic benefit could be achieved in fewer steps but results in higher taxes.

• The tax authority could presume that the transaction lacks business purposes based on the specific facts and circumstances and the information and/or documentation obtained during the audit process, which will have to be stated in its final audit decision.

- The re-characterization may not give rise to criminal liability.

• In 2021, criminal liability for this type of operations in limited scenarios was introduced.

s) Tax treaties

• Tax treaties in force (62):

Argentina, Australia, Austria, Bahrain, Barbados, Belgium, Brazil, Canada, Colombia, Costa Rica, Chile, China, Czech Republic, Denmark, Ecuador, Estonia, Finland, France, Germany, Greece, Guatemala, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Korea, Kuwait, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, New Zealand, Norway, Panama, Philippines, Peru, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Singapore, Slovak Republic, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States, Ukraine, Uruguay, United Arab Emirates, and Venezuela.

Mexico is part of the Convention on Mutual Administrative Assistance in Tax Matters.

• Treaties under negotiation (12):

Egypt, Iran, Ireland (renegotiation), Lebanon, Malaysia, Morocco, Nicaragua, Oman, Pakistan, Slovenia, Thailand, and Vietnam.

• Exchange of information agreements in force (17):

Aruba, Bahamas, Belize, Bermuda, Canada, Costa Rica, Cayman Islands, Cook Islands, Guernsey, Gibraltar, Isle of Man, Jersey, Netherlands Antilles, United States of America, Liechtenstein, St. Lucia, and Samoa.

Mexico is party to the OECD-sponsored Convention on Mutual Administrative Assistance in Tax Matters.

• Exchange of information agreements under negotiation (5):

British Virgin Islands, Marshall Islands, Monaco, Turks and Caicos, and Vanuatu.

• The multilateral convention was ratified by Mexico in March 2023 and became enforceable as of July 2023.

t) Tax incentives

Federal tax incentives

• Employment to handicapped and elderly persons.

• Mexican movie and theatre production tax credits.

• FIBRAS (REIT's).

• Accelerated deduction for real estate developers of the cost of land.

• Special tax regime for investments done in venture capital.

• R&D cash grant.

• Special tax transparency regime for foreign private equity and venture capital industry.

• Professional athletes.

State tax incentives:

• Reductions and exemptions from local taxes and fees (payroll tax, acquisition tax, property ownership tax, registry fees, etc.).

• Construction and improvements in infrastructure.

• Scholarships for employee training.

• Donation, sale, exchange, bailment, lease of movable and immovable property of the state.

• Promotion of R&D projects.

• Employment to handicapped and senior citizens (discounted rate for payroll tax).

u) Compliance Through Robust E-Platform

• Electronic Tax Mailbox System.

• Communication between taxpayers and authority through an electronic mailbox system.

• Authority will serve notices through electronic service of process.

• Taxpayers – Comply with requirements, file writs, requests, notices and petition for tax rulings.

• Need to efficiently monitor the electronic mailbox.

• Tax vouchers.

• All tax vouchers must be electronic ("CFDI").

• Printed tax vouchers disappear.

• Rules for import operations on behalf of third parties.

• CFDI for merchandise returns, discounts and bonuses.

• CFDI for wage payments.

v) Data Privacy in the Tax World

Tax Secrecy and Taxpayers in Default:

• Publishing by the tax authorities.

• Taxpayers in default whose location is unknown.

• Taxpayers who have received debt forgiveness.

• Taxpayers who inappropriately use tax vouchers – fake invoices.

• Information on certain operations that are deemed abusive.

• Taxpayers are obliged to disclose information on certain operations.

• Activities targeted by "Anti-money Laundering Law".

• Information exchange with other administrative bodies (Social Security Institute and the like).

• Exchange among tax authorities, if allowed by international treaties.

w) Digital platforms – special tax regime for users

Mexican tax resident individuals that render services through digital platforms have a special tax regime consisting of definitive withholdings performed by the digital platform that are taxed at a preferential rate. The covered operations are:

• Ground transportation of individuals and delivery of goods. 2.1% withholding rate.

• Lodging services. 4% withholding rate.

• Transfer of goods and provision of services through digital platforms 1% withholding rate.

Platforms are obligated to register, withhold and comply with formal obligations. The penalty upon noncompliance could be disabling of the platform in Mexico.

x) Formalities on Merger Operations

Merger operations of Mexican tax resident companies have a recent tax formality to be considered effective for tax purposes. The effectiveness of a merger from a pure tax perspective depends on the cancellation of the Taxpayers ID of the merged entity.

Current formalities for the cancellation of the Taxpayer ID of the merged entity include consistency between the accruable income declared for purposes of the tax returns filed by the merged entity and the aggregate amount of income resulting from the invoices issued by the merged entity in the same reference period. Such requirement has created multiple complications to taxpayers that performed merger operations as flat consistency is almost impossible due to incidental variables that affect accruable income for purposes of the tax returns, and there is no invoicing counterpart such as accruable inflation, among others. The complications currently delay the tax effects of the merger, sometimes for more than a year.

SECTION 4

Labor, Social Security & Immigration

a) Application of Mexican Federal Labor Law

The Federal Labor Law (the "Law") regulates non-governmental employment relationships in Mexico. It applies to all individuals rendering subordinated services anywhere in the Mexican Republic (both Mexican and foreign nationals), and Mexican nationals in Mexico hired to perform personal services abroad.

The Law establishes statutory provisions that must be followed by employers as of the commencing of a labor relationship.

The Law also provides two general types of employment relationships: individual and collective. An individual employment relationship is created upon a person being hired to render services in a subordinate position, whether on a temporary, task specific, season, initial training, or permanent basis. Collective employment relationships are established when the employees are organized for representation of the employees' interests before the employer.

b) Individual Employment Relationship

An individual employment relationship, regardless of the contract denomination or text, arises under any arrangement or understanding under which a person has the obligation of performing personal subordinated services, and subject to the control of, another individual or entity, in consideration for compensation. Since under Mexican legislation, the burden of proof as for terms and conditions of the employment relationship rests on the employer, it is recommended to execute a written agreement setting out the relationship. The minimum terms and conditions required to be included in an employment agreement, pursuant to article 25 of the Law, are:

1. Name, age, nationality, sex, marital status, Citizenship ID No., Tax ID No., and domicile of the employee and employer;
2. Term of the agreement;
3. Description of service or services to be rendered;
4. Place or places where the services will be provided;
5. Work shift;
6. Amount, form, place and date of payment of compensation;
7. Training and development plans and programs; and
8. Beneficiaries of the employee in case of death, to receive the employee´s employment labor benefits; and
9. Any other provisions agreed between employee and employer.

Unless the services to be performed are such that they are necessary only for a job with a fixed or determinable term for performance, employment is presumed to be permanent. The types of individual employment agreements are:

1. Permanent Agreement (legal presumption).

This agreement is the general norm, is permanent and of indefinite duration. It may be terminated, suspended, or rescinded by the employer without payment of severance only if the action taken by the employer is for justified (by the employer) legal cause (See IX). In this agreement, a probation period can be established for up to 30 days, and could extend to 180 days in case of management, technical or specialized professional positions. Probation periods cannot be extended beyond the referred periods, nor used with initial training agreements or after them. If the employee did not pass the probation period, employer may terminate the employment relationship; however, it must obtain the opinion of the Training, Skill-Enhancement and Productivity Commission.

2. Task Specific Agreement.

An agreement for a task may be executed only if required by the services to be performed and if the job is specifically shown to have a determinable term for performance thereof. It is terminated once the job has been concluded.

3. Temporary Agreement.

The execution, as with the contract for a task, may be executed only when the nature of the services to be performed so requires. The Law allows this contract to be entered into if its purpose is the temporary replacement of another employee, due to his/her incapacity, vacation, or absence. This agreement has also been used where there has been a temporary increase in the sales, production or other business activities of the employer which could not be handled with the normal labor force. The circumstances for this arrangement must be analyzed case by case. Likewise, if the temporary agreement last for over 180 days, a probation period can be established, as described in the Permanent Agreement section above.

These types of agreements, and the agreement for a task, will be deemed valid by Mexican labor authorities only if the activities covered by such contracts do not fall within the permanent activities performed by the employer. If the activities to be performed by the employee under these types of agreements (task or determined period) fall within the permanent activities of the employer, the Mexican labor authorities will consider the labor relationship to be on a permanent basis, with the employee being entitled, at his/her election to receive a severance payment or to be reinstated in his/her job. Therefore, it is necessary to analyze the services to be performed by the employee to determine the contract that should be executed.

4. Initial Training Agreement.

An agreement for initial training can be agreed to for a term of up to 3 months and could extend to 6 months in case of management, technical or specialized professional positions, so the employee can acquire the skills needed to perform the contracted work. This arrangement cannot have a probation period or be used subsequently. If the employee did not acquire the skills for the position, employer may terminate the employment relationship; however, it must obtain the opinion of the Training, Skill-Enhancement and Productivity Commission. If not terminated, then this agreement will be deemed a Permanent Agreement.

5. Seasonal Agreement.

This agreement guarantees the continuation of employment after each season. The Law allows for this agreement when the nature of the work to be performed is permanent, but discontinuous. This means, that it does not require the services of the employee for the full week, month, or year. Within the term in which the employee is not physically rendering services, the employment relationship is suspended.

Employees holding a "position of trust" (also known as white collar employees) are those carrying out functions of direction, inspection, surveillance, and supervision and those relating to personal matters of the principals of the company. If dismissed without legal cause, a white-collar employee is entitled to a severance payment, but is not entitled to reinstatement, should the employer pay full severance. White collar employees may form unions different from those of other employees. Determining whether an employee is an employee holding a position of trust depends on the actual functions performed and not on the title of the position.

Besides employees holding positions of trust, the Law expressly regulates the following special categories of employees: (i) women; (ii) minors; (iii) ship crews; (iv) airline crews; (v) railway; (vi) public service land transportation; (vii) public service handling operations in Federal zones; (viii) agriculture, ranching and forestry; (ix) commercial, insurance, traveling salesmen, sales promotion and similar agents; (x) professional athletes; (xi) actors and musicians; (xii) freelance and teleworking services; (xiii) domestic service; (xiv) hotel, restaurant, bar and similar establishments; (xv) family industries; (xvi) medical residents carrying out specialty training; and (xvii) legally autonomous university and higher education institutions.

c) Statutory Non-Waivable Employee Benefits

The following are the minimum, non-waivable benefits that must be provided by the employer to all its union and non-union personnel from the moment of employment.

i. Minimum Wage.

The Law mandates payment of a minimum wage amount payable weekly to all employees in cash, without deductions or withholding. The minimum wage is classified as either general or special. Employees that qualify under certain categories defined by the National Minimum Wage Commission as professional categories must be paid a specific special professional minimum wage as opposed to the general minimum wage. Currently, the minimum daily wage is MXN$207.44 and $312.41 for the 43 municipalities that are part of the Northern Border Zone.

ii. Maximum Work Shift and Overtime Pay.

The maximum daily and weekly hours an employee may be required to work without overtime pay, is as follows:

(a) Day Shift (within 6 A.M. through 8 P.M.): forty-eight hours per week;

(b) Night Shift (within 8 P.M. through 6 A.M.): forty-two hours per week; and

(c) Mixed Shift (including not more than 3 ½ hours per day of the night shift): forty-five hours per week.

The maximum shift hours may be adjusted to accommodate a 5-day work week or any equivalent arrangement. Women are not allowed to perform dangerous work. Pregnant women are not allowed to work in commercial and services establishments after 10:00 P.M. Likewise, they cannot work the night shift in industry when the work would be dangerous to their health or to that of their unborn children. Finally, pregnant women are not permitted to work overtime.

Commonly, companies pay for work performed more than the maximum hours for a shift (overtime), as follows:

(a) For the first nine hours of overtime per week: 200% of a base wage; and

(b) Hours imore than the above: 300% of a base wage.

An employee is not legally required to work more than nine hours of overtime per week.

However, due to recent jurisprudence, employees are entitled to 300% of consolidated wage if the maximum hours are exceeded by 3 hours per day or exceeded more than 3 times per week. (Fines from the Labor Secretariat shall also apply.)

iii. Weekly Rest Day

An employee is entitled to at least one full day of rest per week with pay, Sunday being the legally preferred day of rest. Work performed on a Sunday is paid at the normal daily wage plus a twenty-five percent (25%) premium of the normal daily wage, in addition to any applicable overtime payment. If employee renders services during his/her mandatory weekly rest day, he/she is paid at a rate of two times the employee's normal daily wage, plus his/her already generated rest day.

iv. Holiday

An employee is entitled to enjoy the following legally mandated paid holidays every year:

1. January 1 (New Year's Day);

2. The first Monday of February in commemoration of February 5 (Constitution Day);

3. The third Monday of March in commemoration of March 21 (Benito Juarez Day);

4. May 1 (Labor Day);

5. September 16 (Independence Day);

6. The third Monday of November in commemoration to November 20 (Revolution Day);

7. December 25 (Christmas Day);

8. December 1 (New Year's Day);

9. Occasional years (Presidential Inauguration Day, which only occurs every 6 years); and

10. Any day determined by federal and local electoral laws as election days.

Work required to be performed at the request of an employer on any legally mandated holiday is paid at a rate of at least three times the employee's normal daily wage.

v. Vacation and Vacation Premium.

Employees are entitled to the following days of paid vacation for a full year of services:

Years of Rendered services	Days of vacation
1	12
2	14
3	16
4	18
5-9	20
10-14	22
2 additional days per additional five years of rendered services	

In the event of termination of employment prior to the end of any full year of service, the employee is entitled to payment of the proportional part of his accrued vacation for that year.

Vacation pay is made at a rate of the normal daily wage plus a twenty-five percent (25%) premium.

vi. Year-end (Christmas) Bonus.

Employees are entitled to payment of an annual year-end bonus equal to at least the daily wage of fifteen days. This bonus is payable before December 20 of each year.

vii. Profit Sharing.

Employees are entitled to receive their pro-rata portion of ten percent (10%) of their employer's fiscal year (January-December) pre-tax profit.

Fifty percent (50%) of the distributable amount is divided in proportion to the number of days worked during the employer's fiscal year by each employee, and the other fifty percent (50%) is divided based on each employee's wage.

Payment of profit sharing is capped at the equivalent of 3 months of the employees' salary or the average of the payment in the last three years, whatever is more beneficial to the employee. Payment of the distributable amount must be made within the sixty days (May 31) immediately following the date for filing the employer's year-end income tax return (March 31).

viii. Training and Skill Enhancement.

All employers are legally obligated to provide training and skill enhancement to their employees pursuant to an approved (by the Labor Ministry) development and training program. Implementation of the program is carried out by a Joint (employer/employee) Commission for Training, Skill Enhancement and Productivity on which employees and employer are equally represented.

Even though this is only mandatory for employers with more than 50 employees, given its ample capacity, on termination of probation periods or initial training agreements, we recommend all employers to incorporate it.

ix. Health and Safety.

Employer is obligated to provide a safe and healthy working environment. A Joint (employer/employee) Health and Safety Commission must be formed to investigate causes of work-related illnesses and accidents and to propose means to avoid them.

x. Paid Maternity Leave / Paternity Leave.

Pregnant employees are entitled to six weeks paid maternity leave prior to the approximate delivery date and six weeks thereafter. Law provides that pregnant employees can move four of the six weeks to the post-partum period, so thay can spend additional time with the baby, if authorized by employer and a certified doctor. At the end of these leaves the employee is entitled to all accrued seniority and vacation pay.

During the leave period, provided the employee has been properly registered before the Mexican Social Security Institute, the latter (***see v***) covers all maternity expenses and the employee's compensation during the leave periods. Otherwise, the employer is liable for all such expenses and compensation. Likewise, male employees have five business days paid paternity leave.

xi. Social Security:

(***See e***)

xii. Employee Housing Fund

(***See f***)

xiii. Retirement Savings Fund

(***See g***)

d) Voluntary Employee Benefits

Beyond the minimum legally required benefits, the employer can contractually agree to provide additional benefits to the employee, such as productivity bonus, special savings and retirement funds, attendance bonus, cafeteria and transportation subsidies, medical and dental insurance coverage. Notwithstanding, employers need to calculate the tax and social security impact generated by granting these benefits.

e) Social Security Benefits

Employers are legally required to enroll all employees with the Mexican Social Security Institute ("IMSS", or Instituto Mexicano del Seguro Social) and to make the required contributions under the Social Security Law (SSL). Upon enrollment of an employee with the IMSS, IMSS becomes responsible for providing all benefits under the SSL, and the employer is released from any liability thereof. In the event the employer fails to enroll an employee and/or pay its required contributions, it is liable for all social security entitlements of the employee, including fines, sanctions, and indexation for taxation of the omitted amounts. The IMSS will nevertheless provide medical care to the employee and his beneficiaries, but the actual cost thereof will be paid by the employer.

The Social Security contributions of both employer and employee are based on the employee's consolidated daily wage, capped at 25 times the general minimum daily wage in effect in Mexico City. The consolidated daily wage includes all monetary and in-kind compensation and benefits received by the employee, excluding the following:

1. Work tools and clothing;

2. Savings funds, provided they include matching contributions by the employer and the employee;

3. Contributions paid by the employers for "social or union purposes";

4. Contributions made by the employer to the SAR or workers housing;

5. Profit sharing paid to the employees;

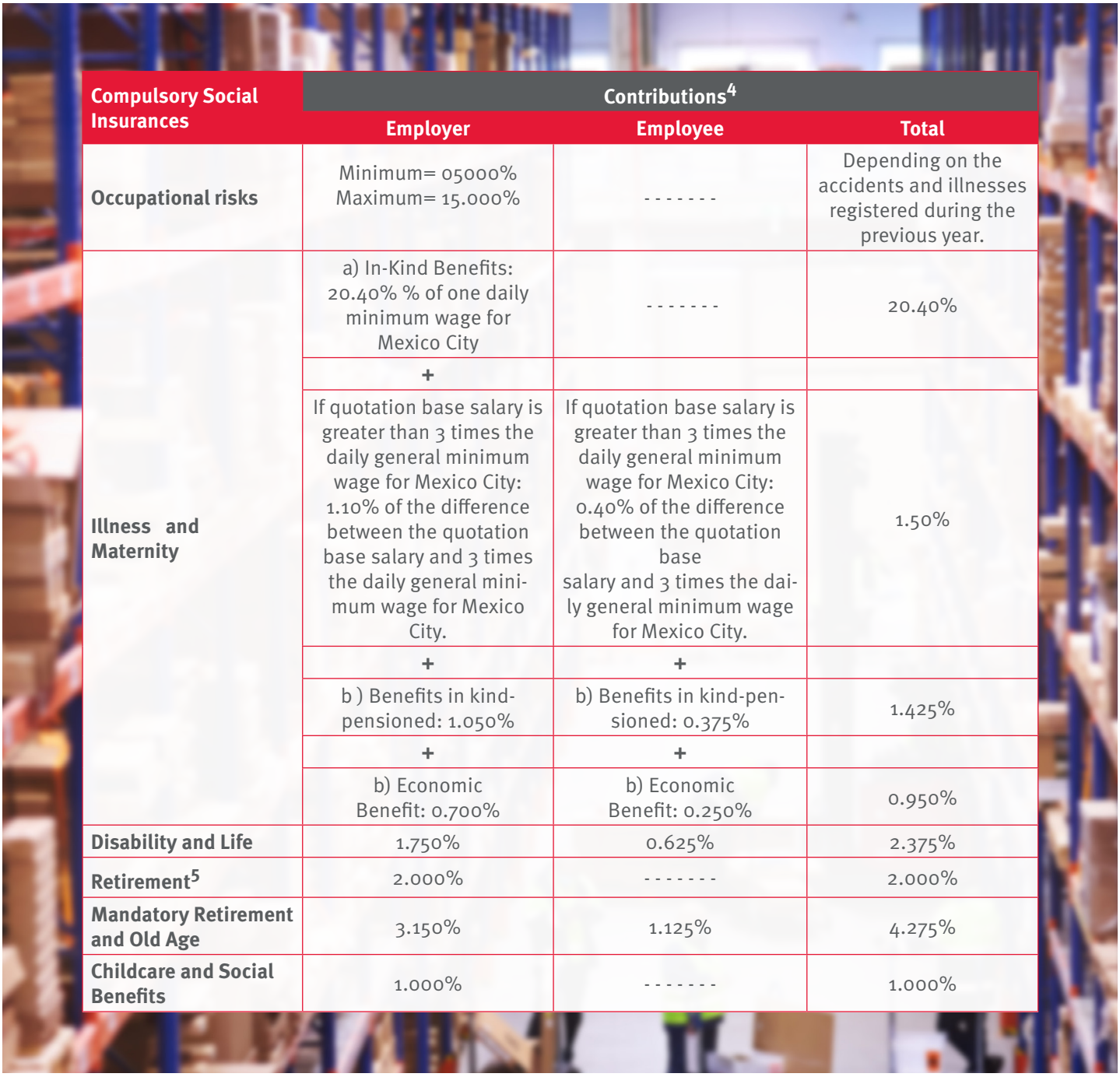
6. Food and shelter, provided the employee pays a portion thereof;

7. Food baskets or vouchers with certain limitations;

8. Attendance and punctuality bonuses with certain limitations; and

9. Overtime pay, unless such service is agreed upon on a permanent basis.

The SSL automatically entitles employees to the following non-waivable benefits from the date of employment: I. Occupational risks; II. Illness and maternity; III. Disability and life; IV. Retirement; and V. Day care and social benefits. The foregoing benefits are funded by contributions of both the employer and the employee. The current percentages of the contributions are the following:



Compulsory Social Insurances	Contributions[4]		
	Employer	Employee	Total
Occupational risks	Minimum= 05000% Maximum= 15.000%	- - - - - - -	Depending on the accidents and illnesses registered during the previous year.
Illness and Maternity	a) In-Kind Benefits: 20.40% % of one daily minimum wage for Mexico City	- - - - - - -	20.40%
	+		
	If quotation base salary is greater than 3 times the daily general minimum wage for Mexico City: 1.10% of the difference between the quotation base salary and 3 times the daily general minimum wage for Mexico City.	If quotation base salary is greater than 3 times the daily general minimum wage for Mexico City: 0.40% of the difference between the quotation base salary and 3 times the daily general minimum wage for Mexico City.	1.50%
	+	+	
	b) Benefits in kind-pensioned: 1.050%	b) Benefits in kind-pensioned: 0.375%	1.425%
	+	+	
	b) Economic Benefit: 0.700%	b) Economic Benefit: 0.250%	0.950%
Disability and Life	1.750%	0.625%	2.375%
Retirement[5]	2.000%	- - - - - - -	2.000%
Mandatory Retirement and Old Age	3.150%	1.125%	4.275%
Childcare and Social Benefits	1.000%	- - - - - - -	1.000%

Any employer who fails to properly withhold and pay the corresponding social security contributions, who submits false information to the IMSS, or who otherwise fails to fulfill its obligations under the SSL, may be subject to a range of penalties, including criminal charges (considered as fraud).

f) Mandatory Employee Housing Fund (INFONAVIT)

Under the Employee Housing Fund Law ("INFONAVIT Law") employers are required to make contributions to the National Housing Fund, which is administered by a federal government agency (the Institute for the Promotion of Employee Housing or INFONAVIT - Instituto del Fondo Nacional de la Vivienda para los Trabajadores). Such contributions are computed at 5 percent of the consolidated daily wage (except for certain items set out in the INFONAVIT Law) of each employee, paid done on a bimonthly basis. Under the original structure of the INFONAVIT, the agency became the builder of low-income worker housing, which it then sold to employees who requested and qualified for credit granted by the agency itself. Since the National Housing Fund meeting

[4] The SSL establishes a maximum limit of twenty-five (25) times the daily general minimum wage for Mexico City as daily quotation base salary, and a minimum of one (1) daily general minimum wage for the geographic area for contribution purposes.
[5] This insurance is paid every two months.

of the housing needs of the population of Mexico was insufficient, loans made by INFONAVIT were granted on a selective basis, with preference given to individuals sponsored by groups such as unions or employer associations.

In the event an employee obtains a loan from the INFONAVIT for the purchase of a residence provided by the INFONAVIT, the employer is required to withhold from the employee's compensation the amount of the required installment payment to be made by the employee to the INFONAVIT on the loan.

g) Retirement Savings System (SAR)

Under the Retirement Savings System (SAR, or Sistema del Ahorro para el Retiro), employers are required to make bimonthly contributions to the SAR computed at the rate of 2% of the consolidated (in the same manner as the social security contributions) daily wage of each employee with a cap of 25 times the general minimum daily wage in effect in Mexico City. The employee can also make after-income-tax voluntary contributions to the SAR. The employer's contribution must identify each employee for whom a contribution is made with each employee's federal taxpayer identification number. The employer is required to provide an employee, upon his request, a list of all contributions made on his behalf.

h) Expatriates

For any individual to legally work or perform an activity for a Mexican entity, he/she must undergo specific immigration procedures which vary from case to case. Nevertheless, in general, the following information will apply to any foreign individual who enters Mexico from time to time and is vested with powers of attorney on behalf of a Mexican entity in accordance with the General Population Law and its Regulations (the "Law").

The government agency managing and enforcing the Law is the National Immigration Institute (hereinafter referred to as the NII), an agency under the Ministry of the Interior ("Secretaría de Gobernación").

Entry into Mexico is by securing the prior permit from the NII authorizing the issuance of the Temporary Resident Visa by the competent Mexican Embassy or Consulate.

The filing of all documents is done at the National Immigration Institute (NII), but a Pre-Approved Temporary Resident Visa will be affected by the competent Mexican Embassy or Consulate for the foreign national's residence.

Upon receipt of the required documents by the applicant, it is necessary to file them before the NII, requesting such Institute to issue an official notification addressed to the Mexican Embassy or Consulate at the foreign national's residence, where the FMM Visa will be physically issued in favor of the foreign national.

This procedure may guarantee that the foreign nationals will not enter into our country to work until they secure their Pre-Approved Temporary Resident Visa from the Mexican Embassy or Consulate in their country or residence, and they are authorized to perform services. This procedure takes approximately four weeks from the date of filing of the documents before the NII.

Once the foreign national has entered the country, he/she shall exchange the Pre-Approved Temporary Resident Visa granted at the Mexican Embassy or Consulate for a valid Temporary Resident Visa. Pre-Approved Temporary Resident Visas commonly grant 180 days from the arrival date for this exchange.

Temporary Resident Visas will be valid from one year to four years, depending on the term requested. After such term, the foreign national could request the issuance of a Permanent Resident Visa (formerly known as FM-2).

Any modification to the foreign national's immigration status or characteristic, nationality, marital status, domicile, authorized activities, change of employer or departure, must be reported to the NII within a term of 30 days after the modification. Not complying with such provision will raise fines by the NII.

i) Termination of Employment and Severance Payments

Termination of an employment relationship by an employer without payment of severance other than payment of seniority premium can occur at any time if it is done with a justified cause. Legal cause exists only if:

1. The employee deceives the employer as to his capacity, aptitudes or abilities, provided the cause occurs within the first thirty (30) days of employment;

2. During working hours, the employee commits dishonest or violent acts, makes threats, offends or mistreats the employer, his family, employer officers, administrative personnel, clients or suppliers, unless the employee acted in self-defense;

3. The employee commits any of the offenses listed in the previous item against his co-workers, or due to those actions the discipline in the work site is adversely affected;

4. The employee commits the offenses listed in paragraph (ii) above outside the work site;

5. During the performance of his work or by reason of his work the employee intentionally or negligently causes material damage to the work place or to the employer's assets, including machinery, instruments and raw materials;

6. The employee negligently or through inexcusable carelessness jeopardizes the safety of the establishment or the persons within;

7. The employee commits immoral acts, sexual harassment or bullying in the establishment or place of employment;

8. The employee reveals manufacturing secrets or confidential matters to the detriment of the business;

9. The employee has more than three (3) unjustified absences in any thirty (30) day period;

10. The employee disobeys the employer or its representatives without justification cause, in matters related to the work to be performed under the employment agreement;

11. The employee refuses to adopt preventive measures or to follow the procedures established to avoid accidents or illness;

12. The employee is inebriated (not merely smelling of liquor), under the influence of narcotics, or under the influence of non-medically prescribed depressant drugs on the job;

13. The employee cannot perform his services due to a final judgment imposing a prison sentence;

14. The employee, holding a position of trust, loses the confidence of the employer for reasonable cause satisfactory to the Labor Court; or

15. Other analogous causes that are equally serious and have similar consequences.

However, for a cause of dismissal to be valid it must be evidenced by the employer (burden of proof) and, at the moment of dismissal, the employer must give written notice of the basis for the dismissal either to the employee or to the Labor Court within the following five days after the termination. A dismissal for other than for the above statutory causes is deemed unjustified and subject to payment of severance.

With an unjustified dismissal, the employer, besides the seniority premium, must make the following severance payments:

1. Three months' wages, based on the consolidated wage at the termination date; and

2. Accrued benefits.

An employee dismissed without legal cause has the option to request reinstatement. If he does so and is, in fact reinstated, no severance is paid other than unpaid wages and other benefits payable from the date of dismissal if the general working conditions are not evidenced. Reinstatement can only be avoided by an employer at the conclusion of the trial for dismissal without legal cause if (i) the employment lasted less than one year; (ii) the employer convincingly evidences to the Labor Court that the relationship with the employee has been so damaged that it would be impossible to continue the relationship; (iii) the employee holds a position of trust; (iv) the employee is performing domestic services; and (v) the employee is an employee hired for a temporary period. In this case the employer is required to pay the employee, in addition to all payments referred to above, twenty (20) days of consolidated wages per full year of services referred to in item (ii) above.

An employee may terminate his employment agreement with severance in the following statutorily established circumstances:

1. In the job offer, the employer misled the employee with respect to the conditions of the job, provided this cause is acted upon within the first thirty (30) days of employment;

2. If the employer, his family, officers or administrative personnel, during working hours, commits dishonest or violent acts, makes threats, offends or mistreats the employee, his spouse, parents, children, brothers or sisters;

3. If the employer commits the acts referred to in paragraph (ii) above outside working hours;

4. If the employer reduces the worker's wage level;

5. If the employee fails to receive his wages on or at the usual or agreed date or place;

6. If the employee suffers damages to the tools used in his work due to employer's malicious action;

7. If serious damage or injury is suffered by the employee

or his family's due to security or health conditions in the workplace;

8. If the employer through negligence or inexcusable carelessness, endangers the safety of the workplace; or

9. For other analogous causes that are equally serious and have similar consequences.

The seniority premium referred to in this memorandum is 12 days' wages per year of service up to a monetary cap of twice the minimum wage for the zone. It is payable to all employees (or to their beneficiaries in case of the employee's death while employed) who: (i) voluntarily resign after fifteen (15) full years of service; (ii) terminate employment for legal cause; or (iii) are dismissed with or without legal cause.

j) Collective Labor Relationships (Unions and Coalitions)

A collective relationship exists when the workforce is organized under a union and a collective bargaining agreement has been entered into with one or more employers or employer associations.

Employee unions are organized by:

1. trade unions, which organize workers of a specific trade, occupation or craft.

2. company unions, which organize workers of a given company or firm.

3. industry unions, which organize workers of a specific type of industry.

4. national industry unions, which organize workers of a specific type of industry in two or more states.

Unions are oftentimes grouped into State or Federal federations or confederations.

All unions must obtain their Representation Certificate to enter into a Collective Bargaining Agreement.

Representation Certificates are valid for up to six months and will be requested before the Conciliation and Labor Registry Federal Center.

The Representation Certificate is obtained by means of a written request that contains the following:

- Name and domicile of the union and the company;
- List of workers with their Citizenship Id Number, hiring date, hand signature; and
- Representation by the Union of at least 30% of the employees covered by the Collective Bargaining Agreement.

Two unions can file a request for the Representation Certificate. The union with most votes will be the one to bargain and enter into a collective bargaining agreement with the company.

Initial or Revision of Collective Bargaining Agreements.

Registry of initial Collective Bargaining Agreements, or their duly conducted revisions must go before the Federal Center for Conciliation and Labor Registry, according to the following procedure:

- Accordance of the Collective Bargaining Agreement terms.
- Notice by the Union to the Federal Center for Conciliation and Labor Registry regarding the fact of informing the employees about the terms agreed with the Company.
- Vote of all employees regarding the agreed terms.
- Union publishes the results and informs the Federal Center.
- If majority agrees the Center will admit the registry of the CB.
- If majority does not agree, Union can call a strike or continue negotiating.

To be valid and enforceable, a collective bargaining agreement must be in writing, filed before and approved by the Federal Center of Conciliation and Labor Registry. It is subject to annual review regarding compensation, and to biannual review regarding fringe benefits and any other provision thereof. For initial registration or biannual review, the content of the agreement must be subject to the approval, through a free and secret vote, of more than 50% of the employees that were registered to be covered by the Collective Bargaining Agreement.

Under the Law, the collective bargaining agreement must contain at least:

1. names and domiciles of the parties;

2. the enterprises and establishments covered;

3. its duration;

4. the days of rest and vacations;

5. the amount of salaries;

6. working schedule;

7. regulations for training and development;

8. rules for the constitution of the joint commissions in terms of the Law; and

9. other provisions agreed by the parties.

The Labor Court can sanction to approve the temporary or permanent suspension of a collective relationship in cases where the employer satisfies the burden of proof of the existence of (i) force majeure or Acts of God not attributable to the employer; (ii) the employer's physical or mental disability or death; (iii) lack of raw materials not attributable to the employer; (iv) production surplus derived from the employer's economic situation due to market conditions; (v) temporary, notorious and evident non-cost effectiveness of the operation; (vi) lack of funds and the impossibility to obtain them to continue normal operations; and (vii) non-payment of government contractual obligations essential for continue operations.

A collective relationship can also be terminated for (a) the reasons mentioned in items (i), (ii), (v) (if permanent, not temporary) for suspension of the relationship, (b) bankruptcy or insolvency when the authorities or creditors decide on closure of the employer or permanent reduction of the activity, and (c) special

circumstances applicable to the mining industry.

k) Internal Shop Regulation

The Internal Shop Regulation is the group of obligatory provisions for employees and employers in the conduct of the jobs in the company or establishment. The administrative standards and standards of technical order that the companies make for the performance of the jobs should not be part of the Internal Shop Regulation.

The Regulation must contain at least the following provisions:

1. the time of entrance and exit for the employees, and the time designated for meals and rest breaks, during the shift;

2. place and time in which the work shifts should begin and end;

3. days and time set for the cleaning of the establishments, machinery, equipment and work tools;

4. standards for the use of seats or chairs as referred to in Article 132, Section V;

5. standards to prevent accidents on the job and instructions for giving first aid;

6. unhealthy and dangerous labor that should not be performed by minors, and the protection that must be given to pregnant employees;

7. time and form in which the employees must submit themselves to medical exams, preliminary or periodical, and for the preventive methods that the authorities dictate;

8. absences, permits and licenses;

9. disciplinary provisions and procedures for their application. The suspension from the job, as a disciplinary measure, cannot exceed eight (8) days. The worker will have the right to be heard before the sanction is applied; and

10. the other necessary standards and regulations that are dictated by the nature of each business or establishment, to maintain the best safety and regularity in the conduct of the services.

The Regulation will be formulated by a Joint Commission comprised of an equal number of employees' and employer's representatives. The regulation will take effect from the date of their filing. It should be printed and dispersed to the employees and will be posted in the most visible places in the company.

l) Strikes

Strikes are legally allowed except in the following circumstances:

1. The strike was not approved by a majority of the union members.

2. If the strike is not for the following objectives: (a) to obtain a balance between capital and labor; (b) to have the employer enter into a collective bargaining agreement; (c) to review a collective bargaining agreement upon its expiration; (d) to have the employer enter into a so-called Collective Bargaining Agreement-Law ("Contrato Ley"); (e) for compliance with an agreement which has been breached; (f) for compliance with statutory profit sharing; (g) in support of a legal strike; and (h) review of agreed compensation.

3. The union did not follow the procedural requirements for a strike (strike notice, failure to stipulate strike demands, and date of commencement of the strike).

m) Subcontracting regime.

On April 23, 2021, an amendment was published to regulate the subcontracting regime in Mexico, reforming various provisions of the Federal Labor Law, Social Security Laws, and certain tax and constitutional aspects.

In general, the subcontracting of personnel is prohibited. Subcontracting is understood as when a natural or legal person provides or makes available their own workers for the benefit of another. However, the subcontracting of specialized services or the execution of works that are not part of the corporate purpose or the predominant economic activity of the beneficiary will be allowed, provided that the contractor is registered in the newly created Public Registry of Specialized Services or Works.

It is important to consider that Subcontracting must be formalized by a written agreement establishing the purpose of the services to be provided or the works to be executed, as well as the approximate number of employees who will render the services.

Failure to comply with the applicable outsourcing regulations could result in fines imposed by the Labor Ministry.

SECTION 5

Foreign Trade & Customs

a) Introduction

This provides an overview of mainly Mexican customs and trade conditions that companies doing business in Mexico must bear in mind to guarantee an efficient, secure and cost-effective operation.

As in many other countries, the customs provisions, regulations, and legal practice, have certain particularities that must be complied with. In Mexico, there is a broad variety of customs and international trade provisions that must be understood prior to the introduction of goods into Mexican territory.

1. As a primary condition, any company that will begin import operations must be legally established in accordance with Mexican law.

2. It will be important to prepare a strategic plan for the most convenient customs structure, meaning the most convenient import regime, implications, and actions thereof.

3. This established Mexican company must apply for a General Importer's Registration, to be able to act as an importer of record of any type of goods. In certain cases, it is also necessary to obtain a Sector Importer's Registration, a requirement that may imply a considerable number of documents and information.

4. It must have chosen a reliable and legal customs broker that will act as its legal representative before customs and at the customs clearance (cross-border operations), individuals who are duly authorized to carry out these procedures in specific customs houses.

5. It is imperative to have a prior complete legal advisoryregarding the tariff item classification of the products to be imported, to be aware in advance of the import applicable duties, dumping duties, countervailing duties, value added tax, excise taxes, governmental fees and customs processing fees, as well as a non-tariff restrictions such as import permits, health regulations, Mexican Official Standards and/or any other registrations that must be obtained prior to these importations.

6. It is crucial to determine the goods' customs value, since these duties and taxes are determined upon this value, which includes the price paid for the acquisition and brokerage fees, transportation, insurance, storing, handling, loading, and unloading costs, among other aspects.

7. It is also important to determine the origin of the goods in case there are applicable preferential tariff treatments (duties exemptions) according to free trade agreements (FTAs) signed by Mexico.

b) Free Trade Agreements

Mexico has entered a significant number of FTAs with over 50 countries, among which we can mention:

- The European Free Trade Association (EFTA) agreement with Iceland, Liechtenstein, Norway, and Switzerland.

- The FTA with the European Union, which encompasses Austria, Belgium, Bulgaria, Croatia, Cyprus, The Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden. Additionally, a related trade continuity agreement with the UK was established following Brexit.
- The United States-Mexico-Canada Agreement (USMCA).
- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP) involving ten countries in the Asia-Pacific region: Australia, Brunei, Canada, Chile, Japan, Malaysia, New Zealand, Peru, Singapore, and Vietnam.
- The Central America FTA with Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.
- Individual agreements with Israel, Panama, Colombia, Japan, Peru, and Chile, among others.

All the above treaties signed by Mexico are aimed to provide a more competitive legal framework to manufacturers in a global environment, by facilitating and fostering exports which will help industries to develop and increase manufacturing sales and improve their marketing processes and overall position.

The referenced treaties implement crucial regulations to achieve the above-mentioned goals, such as those establishing rules of origin, preferential treatment and applicable duties, elimination of tariff and non-tariff barriers and requirements, granting exemptions to countervailing duties and other trade restrictions and by creating special manufacturing regimes to introduce on a temporary basis foreign machinery and equipment, raw materials, parts and components, in order to produce and export final products on a preferential basis to those countries with free trade agreements signed with Mexico.

It is important to mention that the rules of origin established under each FTA will regulate and determine which requirements the manufacturing process and the end product need to meet in order to be considered as an originating product and be eligible for preferential treatment.

Furthermore, some rules of origin for specific manufacturing processes or transformation can be applied to qualify the product under a given FTA. Such an advantage allows exporters the benefit of claiming origin under more than one FTA.

c) Export promotion programs

The Manufacturing, Maquila, and Exportation Services Industry Program (or IMMEX per its Spanish acronym) provides the export industry at large with operational benefits, such as importing merchandise, including raw materials, parts, components, packaging materials, tools, equipment, accessories, and machinery and equipment, among others, on a temporary basis to be used in an industrial process or services destined for the manufacturing, production, repair or transformation of foreign merchandise to be later exported as an end product or to render services to be exported, with the benefit, in most cases, of not paying the General Import Duty and countervailing duties.

Goods temporarily imported may remain in Mexico for an 18-month period, as set forth by the Customs Law and the IMMEX Decree, and in case of M&E for as long as the Program is in force.

There are other export-oriented, or production programs offered to companies that complement the IMMEX Program aimed to increase the manufacturer's commercial potential, such as Sectorial Promotion Programs (PROSEC and Rule 8).

PROSEC allows for the importation of certain merchandise regardless of country of origin, applying a preferential duty rate provided these are used for the manufacturing of goods under any of the twenty-four sectors covered by this program.

d) Value-Added Tax and Excise Tax Certification (VAT Certification)

This Certification is applicable for companies that operate under the IMMEX Program and temporarily import goods and duly evidence reliability in tax and customs matters. It can be obtained under three different categories: A, AA, and AAA.

Companies operating under this certification may avoid VAT payment on temporary imports by applying a tax credit upon said operations, subject to reporting the allocation of these goods to other customs regimes within the legal temporary import period, and a robust compliance with its foreign trade and tax obligations.

e) Outlook and current foreign trade trends

Mexico has positioned itself globally within the context of nearshoring trends, aiming to streamline logistics, reduce costs, and mitigate risks associated with international trade, namely for those operations targeting the United States market.

These trends are likely to attract an increasing number of companies and foreign trade investment interested in setting operations in Mexico.

Furthermore, the USMCA and Mexico's robust FTA network, as well as its unique geographic location, among other factors, continue to provide substantial advantages to Mexico as a manufacturing hub. Nevertheless, it is important to address and consider certain key factors when conducting import or export operations to and from Mexico.

SECTION 6

Environmental Regulations

Mexico has a comprehensive legal framework for environmental protection, including federal and state level laws and regulations, depending on where they plan to initiate activities in Mexico. These regulations can vary widely, so it is crucial to research the specific requirements in the area where a company plans to operate. Each tier works in partnership with the others through an integrated system, and the specific activity or project will determine the applicable jurisdiction to regulate it. It is wise to take a preventive approach to environmental planning and compliance to secure investments made in the country.

a) Environmental Regulations and jurisdictions

The General Law on Ecological Equilibrium and Environmental Protection (LGEEPA per its acronym in Spanish) provides the framework for the national environmental regulations in Mexico. One of its main purposes is to distribute powers between the federal, state, and municipal governments to regulate protection of the environment, as well as preservation and restoration of the ecological balance within their jurisdictions.

Under this law, a variety of federal regulations have been enacted on water and wastewater discharges, air emissions, soil, environmental audits, natural protected areas, use of forestry resources, wildlife, climate change, environmental liability, and handling of wastes. Environmental laws regarding these subjects have also been issued in all states and in many municipalities with various degrees of complexity.

While federal authorities exclusively regulate some activities and subjects, such as those enacted to promote industrial safety and environmental protection and waste management specifically with respect to hydrocarbon-related activities, most companies will find themselves subject to compliance with regulations for both federal and state governments at the same time. Therefore, companies must assess very carefully their activities to comply with the applicable regulations according to their operations, per each subject, to prevent breaches that might result in sanctions that will endanger their operations.

In addition to laws and regulations, technical standards know as Mexican Official Norms (NOMs per their acronym in Spanish) have been issued to enforce environmental compliance. These NOMs set binding specifications, standards, values, and characteristics applicable to products, processes, facilities, systems, activities, services, or methods of production. NOMs set maximum limits for pollutants in air, water, and soil, and list hazardous wastes, substances, and endangered species.

b) Environmental Authorities

The Ministry of Environment and Natural Resources (SEMARNAT per its acronym in Spanish) is the main governmental agency in charge of enacting and enforcing environmental regulation at the federal level.

Additional administrative agencies associated with SEMARNAT oversee specific areas of environmental policy, such as:

- The National Water Commission (CONAGUA per its acronym in Spanish).

- The Office of the Federal Prosecutor for Environmental Protection (PROFEPA per its acronym in Spanish). PROFEPA is the enforcement arm of SEMARNAT and it has the authority, under the internal regulations of the Secretariat, to enforce environmental laws and regulations; carry out inspection visits; prosecute environmental non-compliance; and apply sanctions and oversees the federal voluntarily environmental audit program.

- The National Commission for Natural Protected Areas (CONANP per its acronym in Spanish).

- The Security, Energy and Environment Agency (ASEA perits acronym in Spanish). As mentioned earlier, this agency regulates and oversees environmental protection with respect to hydrocarbon-related activities specifically.

There are also decentralized administrative departments and other institutes or commissions, acting under the coordination of SEMARNAT, which generally provide advice and technical information on matters such as water, forestry, climate change, and so on.

c) Environmental Enforcement

Environmental laws and regulations are generally clear about the consequences and penalties for non-compliance with them, and on the procedures to enforce and apply them. Administrative sanctions range from economic penalties up to, confiscation of equipment, instruments, product, or by-products directly related to violations regarding forestry resources and wildlife species, partial or complete closure of facilities, and even revocation of necessary concessions, permits, registries, licenses, and authorizations required to carry out the companies' activities. This last sanction is not limited to those granted by environmental regulations but also those issued by any other Mexican authority.

Regarding environmental liability, in 2013 the Federal Law of Environmental Liability (LFRA per its acronym in Spanish) established fault-based liability as a rule for damages caused to the environment. Ordinarily, if a company causes damage, the company itself is liable. However, directors and officers can be held liable or even criminally liable if they actively violate environmental regulations. In addition, as of June 2016, the Mexican Federal Criminal Code and the National Criminal Procedures Code establish direct corporate liability for criminal activity. Corporate entities are liable for environmental crimes when (a) they are committed on their behalf, for their benefit or using means provided by the company, and (b) due control was not exercised to prevent such criminal activities.

This requires a preventative approach to environmental compliance and liability issues, as well as an understanding of the evolving regulatory landscape. Our Environmental Practice's experience supports this approach and assists our clients in implementing environmentally responsible activities and policies in their operations in Mexico in a reasonable and cost- effective manner.

d) Environmental Permits and Reports

d.i) Environmental Impact and Risk Assessment

The aim of Environmental Impact Assessments (EIA for its acronym in Spanish) is to evaluate, prevent and compensate negative environmental impacts cause by certain activities.

At a federal level, it regulates activities in certain sectors that imply environmental risks or take place within environmentally sensitive areas. The main characteristic of these authorizations is that they must be filed and obtained BEFORE any works or activities take place.

As listed in the LGEEPA, the following activities are subject to obtaining a federal EIA:

A. Hydraulic infrastructure, communication routes (major highways), pipelines, gas pipelines, carbo-ducts (coal pipelines) and poli-ducts.

B. Oil, petrochemicals, hydrocarbons, chemicals, steel, paper, cement,and electricity industries.

C. Exploration and exploitation, as well as benefitting from minerals and materials reserved to the federal government in terms of relevant mining laws.

D. Facilities for the treatment, confinement, and elimination of hazardous and radioactive waste.

E. Exploitation of forest.

F. Change of forestry land use

G. Industrial parks where high-risk activities are carried out.

H. Real estate developments in coastal zones.

I. Activities carried out in wetlands, mangroves, lagoons, rivers, lakes, and estuaries connected to the sea, including their coasts, and federal zones.

J. Activities carried out in natural protected areas of federal jurisdiction.

K. Fishing, aquaculture and agriculture activities that could endanger the preservation of one or more species, or cause damage to ecosystems.

L. Activities of federal jurisdiction that can:

a. cause grave and irreparable ecological imbalance;

b. have a harmful effect on public health or ecosystems; or

c. exceed the limits and conditions set out in the laws that regulate the preservation of ecological equilibrium and protect the environment.

State governments can regulate the environmental impact of other activities outside federal jurisdiction. The projects subject to a state EIA vary from jurisdiction to jurisdiction but are generally smaller-scale projects with a less significant environmental impact.

d.ii) Air Emissions

All sources of air pollution are regulated. Certain stationary sources from specific industries such as chemical, petroleum, petrochemical, paint, automotive, pulp and paper, metal, glass, electricity, asbestos, cement, and hazardous waste industries as well as federal zones are subject to federal jurisdiction. At the federal level, sources of air emissions, must obtain the Consolidated Environmental License (LAU for its acronym in Spanish), which can also incorporate permits related to other areas of applicable federal environmental matters such as hazardous wastes or water consumption and wastewater discharges. This license will only be issued once for every industrial facility with an indefinite validity term (variations on the processes of the facility and changes in emissions must be reported and the LAU is updated accordingly). SEMARNAT can modify emission limits set in LAUs under regulated scenarios.

If the company's operation does not fall under federal jurisdiction, applicable local environmental permits must be secured separately under the local environmental regulations.

d.iii) Water

The National Waters Law (LAN per its acronym in Spanish) is the most comprehensive federal regulation to control water pollution. Among others, it regulates the extraction of federal underground and surface waters, and discharge of wastewater into federal recipient bodies or into the soil. The following activities require a concession authorization issued by the National Water Commission (CONAGUA per its acronym in Spanish):

1. Extraction of underground or surface national waters.
2. The discharge of wastewater into federal recipient bodies.
3. The occupation of federal zones.

Domestic and non-industrial discharge of residual wastewater into municipal sewage systems requires no federal concession. However, it does usually require a permit issued by, or a registration with, the corresponding local authority. The maximum permissible limits of pollutants for water discharged can be specifically determine by CONAGUA or the applicable NOM.

d.iv) Hazardous and Non-hazardous Wastes and Management Plans

Waste is classified as either hazardous waste, special handling waste or solid waste. Hazardous waste generators are responsible for the environmentally safe management of hazardous waste with some regulated exceptions.

Hazardous wastes fall under federal jurisdiction and, in general terms, is classified as hazardous according to its corrosive, reactive, explosive, toxic, flammable or infectious nature. Additional regulations (NOMs) can classify a specific waste as hazardous.

Generators of hazardous waste must be registered before SEMARNAT and comply with several obligations which vary depending on the amount of hazardous waste generated yearly, included the registry of a hazardous waste management plan to reduce and reuse their hazardous wastes.

Special management waste is of state jurisdiction; therefore its regulation varies from jurisdiction to jurisdiction. Some states require special management waste generators to register with the local environmental authority and, depending on the amount of special handling waste generated yearly, are also obligated to register a special handling waste management plan to reduce and reuse their residues. Solid waste is municipally regulated and only includes domestic waste generation.

In 2018, guidelines for the management of Special Handling Wastes generated from activities of the Hydrocarbon Sector were issued. As a result of the energy reform, the regulation of this special handling waste is now under federal jurisdiction and must be registered with the ASEA.

Companies and other regulated parties (such as environmental service providers) must report environmental compliance with federal and state regulated requirements.

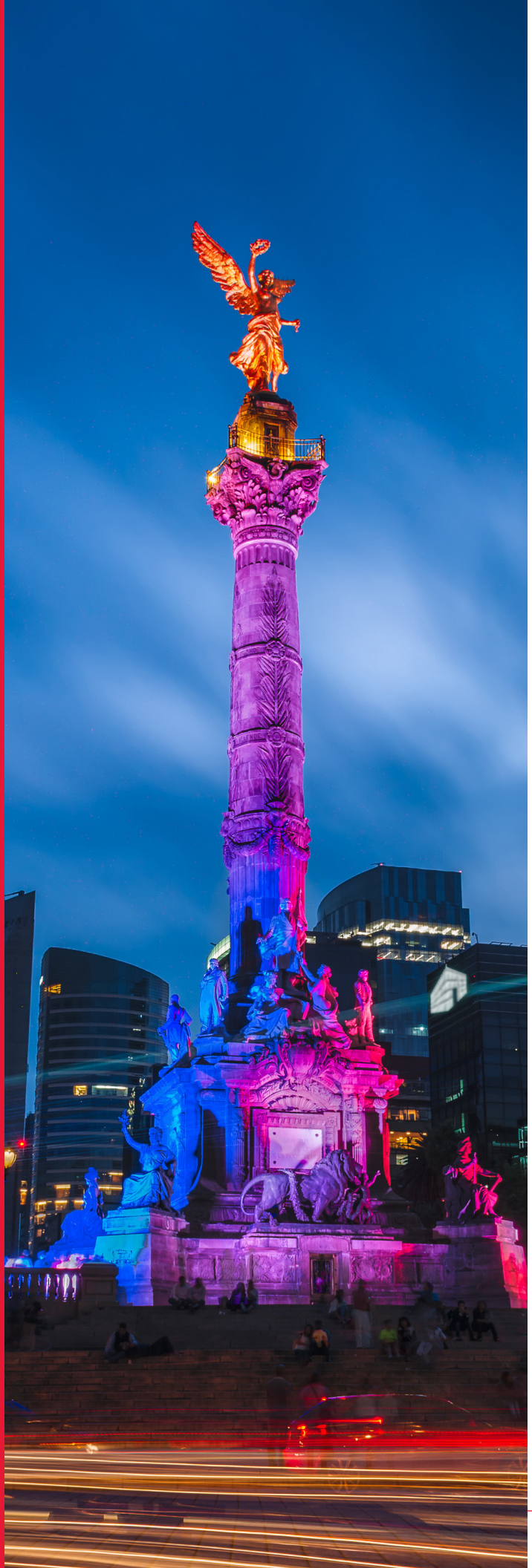
Hazardous waste, federally regulated sources of air emissions, and wastewater discharges into national recipient bodies, must be reported through an annual operation chart (Federal COA for its acronym in Spanish), which is submitted before SEMARNAT. Likewise, in state regulated matters, companies and other regulated parties must report through annual or biannual filings similar to a COA.

d.v) Environmental Liability

Mexico follows the principle of strict liability, which means that responsible parties can be held liable for environmental damage regardless of their intent or fault. The environmental liability is governed by the Federal Environmental Liability Law (LFRA for its acronym in Spanish).

Under the LFRA, those responsible for environmental damage may be required to remediate the harm caused, pay fines, and face civil or criminal penalties. Mexico has established mechanisms for assessing and quantifying environmental damage, and the government can impose corrective measures and sanctions as appropriate.

This is not a comprehensive list of environmental permits. Please bear in mind that each operation is unique and additional permits could apply according to each company's activities.



Conclusion

We hope this document has been a valuable source of information and guidance for your business plans in this dynamic market.

Our team at Sánchez Devanny is committed to continuing to support you at every step of your business journey in Mexico, we are at your service to address any additional questions that may arise or to provide personalized guidance according to your needs.

Your success is our priority, and we look forward to being your trusted partner in this exciting endeavor.

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Sánchez Devanny provides legal services in the areas of Corporate and M&A; Corporate and Project Finance; International Trade and Customs; Real Estate, Infrastructure and Hospitality; Tax; Labor, Social Security and Immigration; Corporate Governance and Regulatory Compliance; Energy, Natural Resources and Environmental; Life Sciences; Intellectual Property, Entertainment and Sports Law; Litigation and Alternative Dispute Resolution; Antitrust; Financial Institutions and Services; Private Wealth Management and Estate Planning and Data Privacy and Information Technology to both public and private clients, especially in the automotive, retail, pharmaceutical, manufacturing, real estate and energy industries.