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QUICK STEPS FOR ESTABLISHING A COMPANY IN MEXICO, AND RELATED ASPECTS

(General Guidelines)

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1.) INCORPORATION (TIMING):

Usually the incorporation of Mexican Company (technically a "Subsidiary") takes between 2 (two) to 4 (four) weeks, depending on how fast we can get all the information requested from the client.

The initial documents and information will be: Special Powers of Attorney (in our favor) to incorporate the Subsidiary, certificate of incorporation of any legal entity abroad that will hold the equity of the Subsidiary, the names of local agents in Mexico for government and tax filings, and the By-Laws and First Incorporating Meeting Minutes. We will provide you with those Special Powers, By-Laws, and Minutes.

Mexican Law requires two partners/shareholders for any Mexican legal entity (local requirement). Those partners/shareholders could be entities or individuals. For example, one can have 99.99% and the other 00.01% of the equity.

2.) TYPES OF COMPANIES (SRL or SA):

There are several types of companies to incorporate in Mexico, however the most common are a:

- Limited Liability Company ("Sociedad de Responsabilidad Limitada" or "SRL"), which is like a closely held corporation for a close group of owners; or
- Limited Liability Stock Corporation ("Sociedad Anónima" or "SA"), which is a stock corporation with diverse owners.

On a Tax note: If the Parent Company has in its country of origin a tax treatment of a "flow or pass through" (taxed only once at "distribution" but not at "corporate" level), it will be best to establish in Mexico an SRL.

For example in the United States the following legal entities: S Corporation, LLP, or LLC are treated with "flow or pass through" tax treatment, and the IRS (Internal Revenue Service) has resolved that they can "mingle" (mix) its profits with those of the Mexican SRL subsidiary [but not with those of a SA (stock corporation)].

In any case, in Mexico, both the Stock Corporation (SA) and the Limited Liability Company (SRL) have the following same characteristics:

1. The shareholder's/partners' liability is limited to their capital equity contribution;
2. The directors are liable for loyally and diligently administering the Company (they can live abroad);
3. Must have at least 2 shareholder/partners (can be foreigners);

4. No tax on dividends if Mexican Generally Accepted Accounting Principles are followed.

Main differences:

1. The SA can quote at the Mexican Stock Exchange, but not the SRL; and
2. The SRL is a closely held company and appropriate for a single owner.

There is no exchange controls in Mexico. Any repatriation of dividends, and any other transfers of monies (e.g.: interest or royalties) are possible.

3.) INCORPORATION - STEPS:

The process for the incorporation in Mexico basically implies the following:

- Filing for the Incorporation Permit;
- By-Laws (English-Spanish);
- Incorporation Powers to be granted in abroad (English-Spanish);
- Coordinate the obtainment of Legalization-Apostille of the POA abroad;
- Coordinate certified translations into Spanish of Legalization-Apostille;
- Incorporating Partners' Minutes to include: capital, management and powers;
- Coordinate your accountants and their appointment for tax filings;
- Coordinate the Notary Public and sign the Incorporation Deed;
- Registration at the Tax Registry);
- Registration at the Registry of Commerce;
- Registration at the Foreign Investments Registry; and
- Communications with you and all relevant parties in the process.

4.) LABOR RISK - TWO COMPANIES:

If the Mexican Subsidiary will have several employees, aside from a general manager, it is advisable to establish an additional services corporation.

The additional "Services" company will avoid the obligatory Profit Sharing Distribution of 10%, and to reduce the labor risks of the "Operating" company.

In the two companies scenario:

- The Operating Company will generate the income, and

- The Services Company will have the employees and provide services to the Operating Company and its clients.

5.) CORPORATE, CASH FLOW, AND VALUED ADDED TAXES:

1. Corporate Tax:

The Rate applicable for this tax will be 30% for 2013. It is calculated after subtracting from the gross income the deductible expenses.

Monthly advanced payments, which will be credited against annual tax.

No tax on Dividends when those Dividends are paid from profits that previously paid Income tax under special rules.

There are very formal requirements to obtain the deduction of expenses from the taxable basis of income tax.

2. Cash-Flow Flat Tax (IETU):

This Cash-Flow Flat Tax is called IETU ("Impuesto Empresarial a Tasa Única") that applies a 17.5% rate to all the cash income received less authorized deductions during the monthly period.

This payment can be offset with the Corporate Tax during the same calendar year under certain circumstances.

3. The Value Added Tax (VAT):

This Tax is calculated on top of all commercial transactions on products and services provided among companies and individuals.

In 2011 the general VAT rate on the price of the product or service is 16% and 11% in Border Zones.

The VAT is not levied on food and medicines, and certain services.

The VAT rate is added to the price of the products or services to be paid and charged over to the buyer.

The seller, in turn, can offset the VAT received against the VAT paid when, in turn acquired other products or services in the month, and at the end of the year.

Most imports of products have a VAT applied. This tax is paid through the customs broker.

6.) IMPORTER'S LICENSE:

If the Mexican Subsidiary will be bringing products into Mexico in a commercial manner, it must be registered at the Importers Registry.

This Registry depends on the Ministry of Treasury and its purpose is to have well established companies as importer and to avoid contraband.

The Importers must be duly incorporated, registered at the registry of commerce, and at the Federal Registry of Tax Payers and be current in their tax obligations.

7.) IMMIGRATION:

If foreigners plan to reside in Mexico they should obtain Business Visas these visas can be sponsored by the International Parent Company abroad, or by the Mexican entity.

These visas are usually for 6 months and renewable. Visas are needed also to open and close bank accounts.

For example, U.S. and Canadian nationals are within the Non-Restricted Nationalities, so the obtainment of the visa averages 30 calendar days.

On the other hand Visas for nationals of Restricted Nationalities, like Indian or Brazilian nationals, it averages 90 days since more filings are needed.

The New Immigration Rules appear with the Mexican Immigration Law ("Immigration Law") that came into effects in 9th, 2012.

The New Rules provide for 3 (three) basic immigration status: (i) Visitor, (ii) Temporary Resident, and (iii) Permanent Resident.

EMPLOYER REGISTRATION

Employers hiring foreigners under any status should be registered as Employer of Record and obtain a "Constancia de Empleador" (Employer Certificate) with the Immigration Authorities indicating the foreigners its hires.

VISITORS ("VISITANTE")

Tourists or business visitors for up to 180 days can receive a Multiple Migratory Form ("Forma Migratoria Múltiple" or "FMM").

Business visitors traditionally perform preparatory business activities, promote products or services, or come for business negotiations that finally close outside of Mexico.

A Visitor may not ask to change for Temporary or Permanent Residency once in Mexico. The foreigner will have to leave the Country and ask for either Temporary or Permanent Residency prior to entrance to Mexico.

An exemption to this is people that enter into a marital or common-law link to a Mexican citizen or a person who holds a Temporary or Permanent Residency status:

VISITORS WITH INCOME ACTIVITIES

Such business visitors should not receive income from Mexican resources, or receive employment from a local employer.

However if a Visitor will be receiving income from Mexican resources they will require a permit to be obtained at the Mexican Consulate where the visitor requesting the permit resides.

An example of a Visitor with income activities is a an artist that will be performing in a concert in Mexico.

TEMPORARY AND PERMANENT RESIDENCY

One of the major changes is the Temporary and Permanent residency instead of the FM3 and FM2 respectively.

Ex-pats with current FM3 (No-Inmigrante Visitantes) visa will receive a Temporary Resident Status upon expiration of their FM3.

Ex-pats who currently hold an FM2 Visa who fall into any of the category of "Inmigrante" will be eligible at the time of renewal for Permanent Residency.

TEMPORARY RESIDENT - GENERAL

The Temporary Resident document will be issued for periods from 1-4 (one to four) years, based on the decision of the immigration authority.

Temporary Residency does not confer automatic permission to work in Mexico, although it may be granted upon request of the foreigner and pending a job offer.

According to the regulations, and congruent with the law, people in ANY OF the following situations will be eligible for Temporary Residency in Mexico:

- People with job offers;
- People registered in the federal tax registry who are trying to work independently in Mexico;
- People who have been invited by a government or private institution to participate in a non-lucrative activity;

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- People who can prove their economic independence;
- People who own real estate in Mexico above a "certain value" (to be determined by further regulations),
- People who have invested a certain amount (to be determined by further regulations) in stock in a Mexican company, production machinery or other assets in Mexico or economic activities.
- People that acquire a marital or common-law link to a Mexican citizen or a person who holds a Temporary or Permanent Residency status.

TEMPORARY RESIDENTS - WITH INCOME ACTIVITIES

Temporary Residents may have a permit to perform lucrative (income yielding activities) in Mexico.

A permit for such income yielding activities is filed before the Immigration Authority in Mexico where the Foreigner requesting the permit resides.

PERMANENT RESIDENT

Permanent Resident is actually a permanent status, except for children under 3 years old who need to renew their documents yearly until reaching 3 years of age.

Permanent Resident status includes express permission to work in Mexico, but changes in employer and updates of activities are required.

Any of the following people are eligible to become Permanent Residents in Mexico:

- Refugees and political prisoners,
- People that acquire a marital or common law link to Mexicans or Permanent Residents (after 2 years of Temporary Residency),
- Retired people (to be defined by further regulations),
- Grandparents, parents, children or grandchildren a Mexican who acquired their nationality by birth,
- People who have a certain number of points based on criteria (to be defined by further Regulations)

* * *

We hope you find this information useful for your operations in Mexico.

Respectfully

Santistevan & Duclaud

DESCRIPTION OF THE FIRM

We maintain an excellent reputation, with over 20 years of being established.

We provide Legal Services to international and national companies in all business areas, from initial agreements to complex operations.

Our Services include: company incorporation, corporate governance, contracts, mergers & acquisitions, distribution agreements, credit and secured operations, tax, labor, real estate, health, immigration, intellectual property registrations, and regulatory filings and government claims.

We keep high ethical standards, quality controls, and excellent organization systems.

It's Founder, Jorge Santistevan, has 30 years of experience, and a lawyer admitted to professional practice in both (i) Mexico, and (ii) in the United States (Illinois); with full legal education, and practice experience in reputable law firms in Chicago and Mexico.

He was also a Fulbright Scholar, lecturing on international legal transactions at University of San Diego, and as a Visiting Lecturer at University of Houston.

Our charges consider the useful and fair value of our service to our clients.

Our Professionals work as TEAM participating in the services, according to their knowledge, experience, availability and rates.

We can prepare Budgets once the services are defined. Such Budgets will be considering normal and expected circumstances, without substantial change of instructions, or long and unexpected negotiations.

We are recommended by many international corporations and consulting firms, embassies and international chambers of commerce. Please visit: www.santistevan.com.mx

We look forward to provide useful and timely services.

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