

INTERNATIONAL TAXATION (ITPG)

The Calm before the Storm

By Sergio Guerrero Rosas

It's true that it has been a slow year in taxation but we can't take our minds off what is yet to come for Mexico; major changes will be happening and we have to be prepared for them.

Some of the 2018 tax modifications and changes include the incentives granted to the companies that suffered from the tragic events on September 2017 - the Mexican government is helping out those most affected by this earthquake.

Meanwhile, taxpayers who are obliged to pay the hydrocarbons exploration and extraction tax will be able to offset balances in favour against subsequent payments of such tax.

Given the recent rulings issued by the



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Supreme Court of Justice, the obligation to provide certain information regarding relevant transactions will be incor-

porated into the Federation's Revenue Law for 2018. In this sense, taxpayers will be obligated to provide, on a quarterly basis to the Mexican tax authorities, information regarding financial derivative transactions, transactions with related parties, transactions related to the participation in the equity of other companies and changes to tax residence, corporate restructures and other similar transactions. All these changes will make the monthly surcharges rate for late payment of taxes increase from 1.13% to 1.47%.

Other modifications include the renewal of excise tax and toll roads incentives and the deduction of employee profit sharing for the purposes of advance income tax payments. It is worth noting that there are no further amendments in connection with the BEPS action plan.

It is election year in Mexico and although everything that is being said are just proposals, we can't stop speculating on what is to come over the next six years.

Candidates are bringing different ideas to the table in many aspects of their campaign but the one we are most worried about is Mr Andres Manuel Lopez Obrador, also known as AMLO, the left-wing candidate who leads every poll in the country.

As a country we should not be worried about a left-wing candidate winning the election, but how the business community will react and whether current investors will believe in him is important because a bad reaction from foreign investors would represent a major hit to Mexico's economy.

Enrique Peña Nieto, the current president of Mexico, sought to strengthen the economy by attracting foreign investment for important economic sectors such as the energy industry, but AMLO has different ideas for Mexico's



future and many of his plans are aimed at helping the lower class in the poorest regions of the country; to fulfil these goals he plans on cancelling the energy reform as well as the construction of Mexico City's new airport.

While the other candidates keep fighting and blackmailing each other, Mr Lopez Obrador keeps winning over the Mexican people and going up in the polls.

NAFTA's boom has calmed down in the last month but we can't let our guard down on this topic because pres-

sure and uncertainty increases with every day that passes by and with so little progress being made, we don't see an agreement in sight.

With elections coming in the United States and Mexico, we can be almost certain that we won't have an agreement before 2019. This time of uncertainty is just blocking foreign inversions, with Mexico being the most affected. In the long run, supposing that Mr Trump chooses to leave the treaty, Mexico will survive the hit but it will have a huge impact on our investments - and that is terrible news for a country whose expected growth for 2018 is lower than 2%.

It will surely be a devastating first year for our economy but in the end it is a lose-lose situation for everyone. North American countries complement each other with this treaty, which helps them to compete with other regions of the world; breaking the link between these countries would therefore be a mistake.

Mexico is currently half-way through a tax reform which just doesn't seem to

end. It's common to see tax authorities celebrating each tax reform goal met; however, tax collection levels are still below those recommended on an international scale.

The OECD keeps a record of tax collection in Mexico; it is lower than the average of the rest of the member countries. Even at a regional level, several Latin American countries have higher levels of tax collection than we do.

The representatives of the private sector have quickly proposed a series of measures to address the US reform – they have even asked Congress to convene an extraordinary term to discuss the issue. This opportunity should be used to propose tax changes in Mexico that, indeed, lower the taxes on companies and businesses so the country can protect itself against the eventual flight of corporations and foreign investment – but reforms shouldn't focus solely on this sector.

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