
Base Erosion and Profit Shifting – Mexico Approach

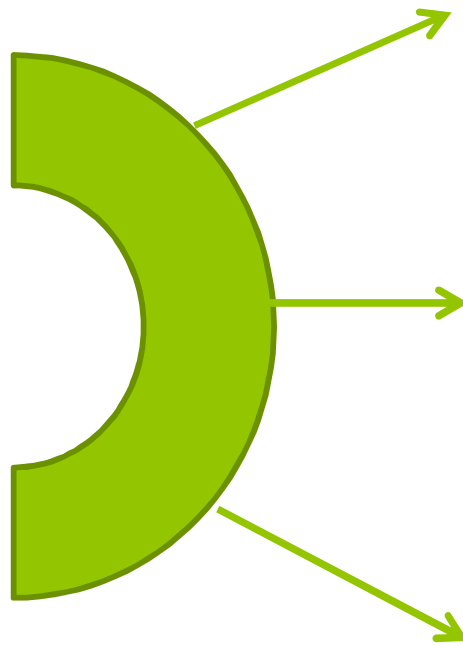
Actions Addressed in Recent Tax Reforms

2. Neutralize the effects of hybrid mismatch arrangements.
3. Strengthen CFC rules.
4. Limit base erosion via interest deductions and other financial payments.
6. Prevent treaty abuse.

2) Neutralize the effects of hybrid mismatch arrangements

Design of domestic rules to neutralize the effect of hybrid instruments and entities:

- *Double non-taxation.*
- *Double deduction.*
- *Long-term deferral*



Provisions that prevent exemption or non-recognition for payments that are deductible by the payor

Provisions that deny a deduction for a payment that is not includible in income by the recipient.

Deny a deduction for a payment that is also deductible in another jurisdiction.

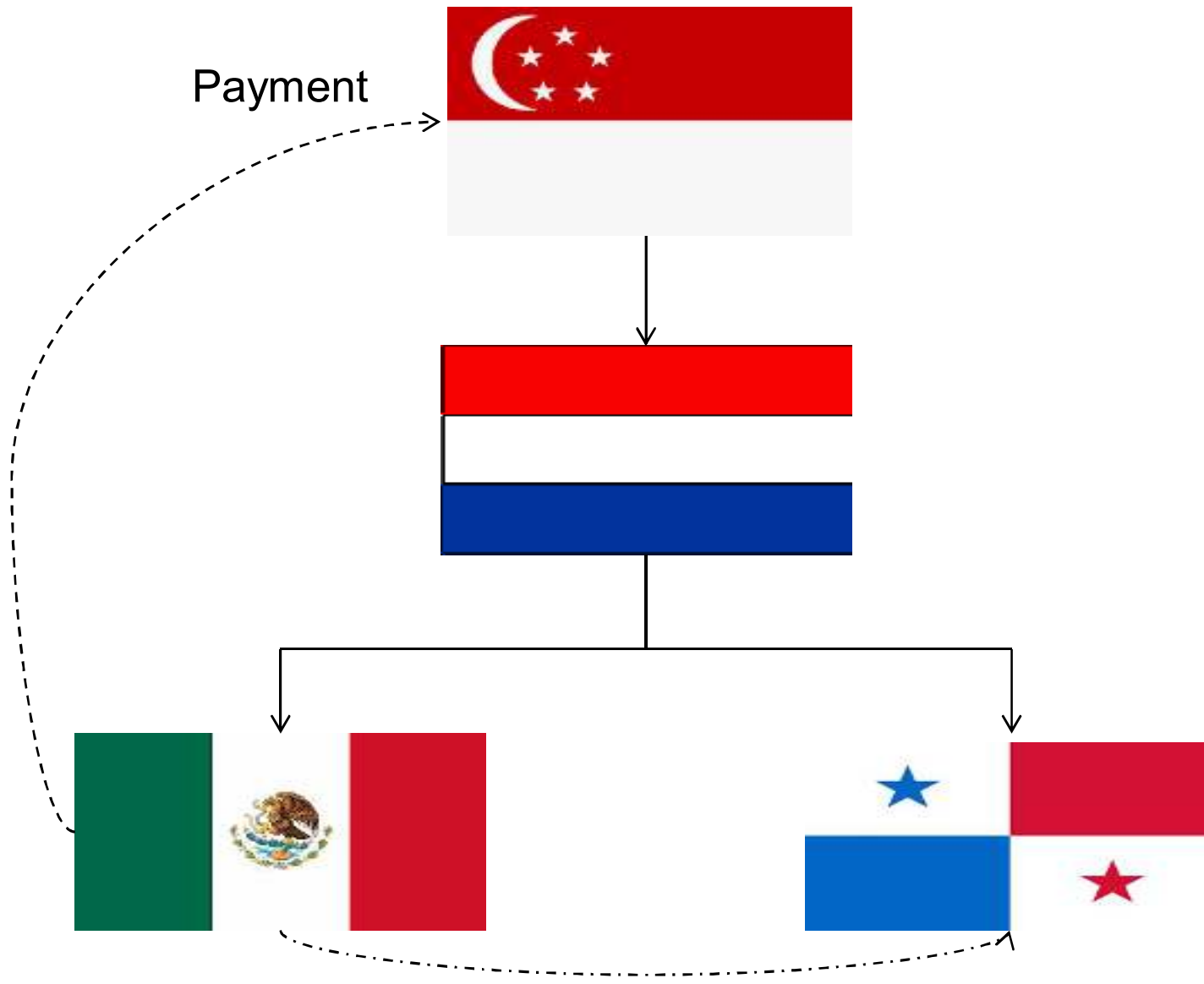


Non-deductible, payments for **royalties, technical assistance and interests** made to related parties that have **control** of Mex Co. or are controlled by it.

Transparent entity.

Payment is considered inexistent for tax purposes in the place of residence of recipient.

Foreign entity does not consider the payment as taxable revenue.



Payment





Non-deductible any types of payments, when they are deductible for a related party resident in Mexico or abroad.

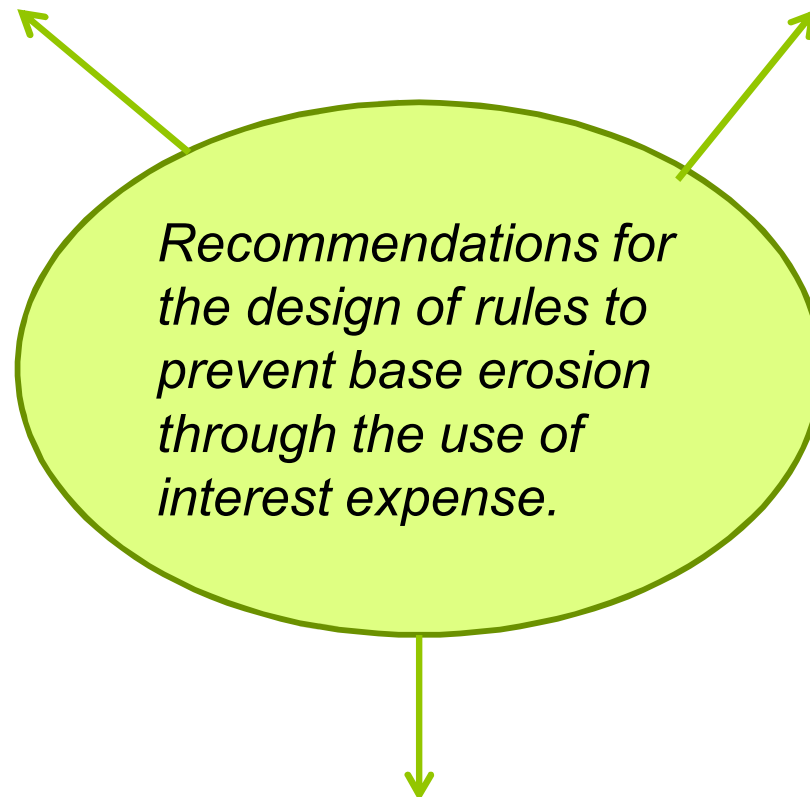
Exception:

When related party that deducted the payment made by the taxpayer, recognizes income generated by this last one, either in the same fiscal year or in the next one.

4) Limit base erosion via interest deductions and other financial payments

Use of related-party and third-party debt to achieve excessive interest deductions.

Finance the production of exempt or deferred income



Other financial payments that are economically equivalent to interest payments.

Thin capitalization rules

3:1 Equity ratio



Back to back loans

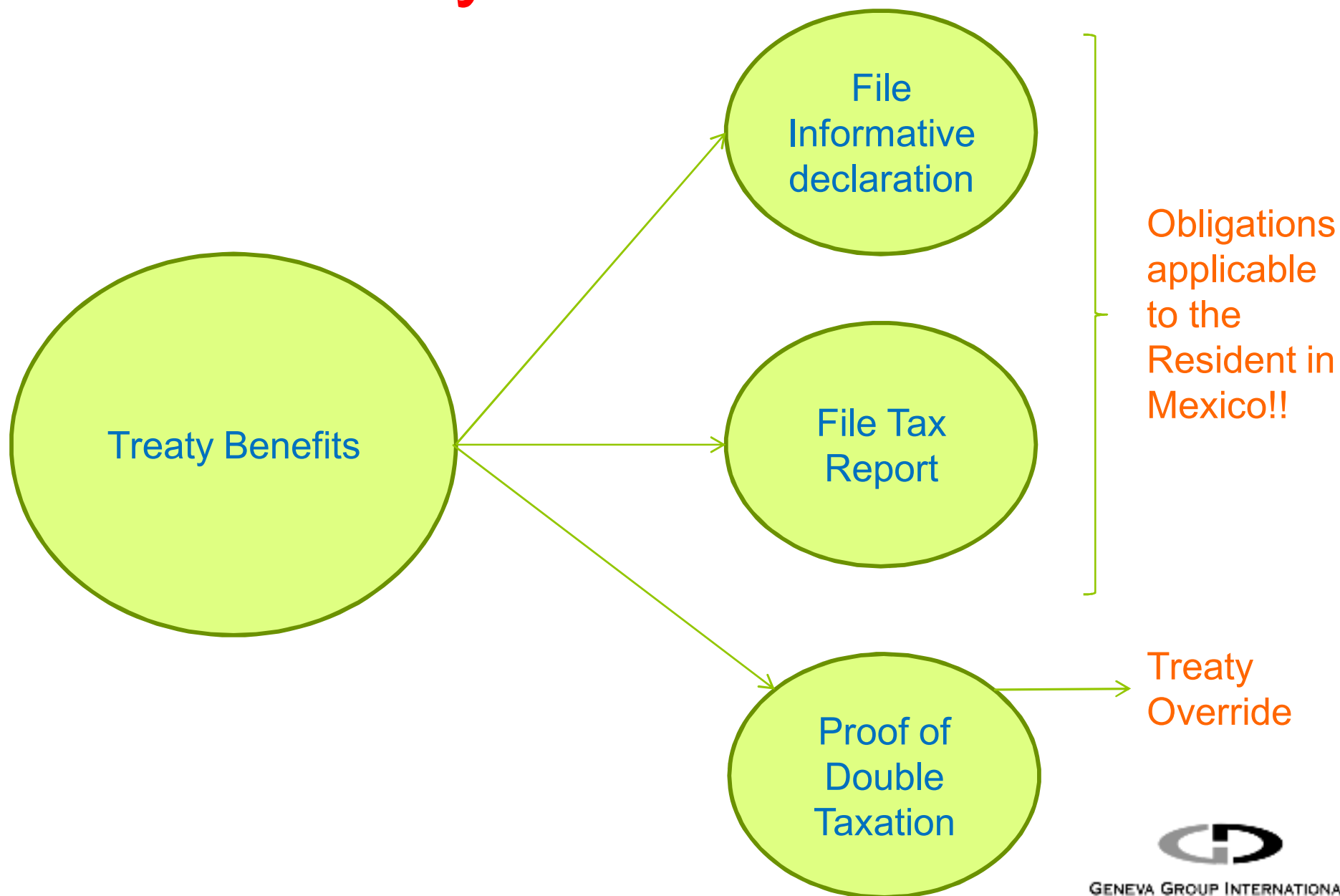
Interests are deemed dividends.

Interests exceeding market rates

Non-deductible

Deemed dividend

Prevent Treaty Abuse



NEW CORPORATE APPROACH



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