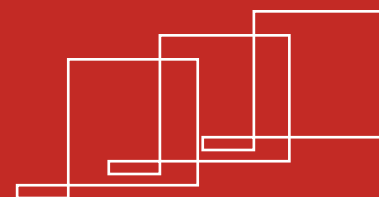


Point of View

Rules for taxpayers deciding not to have their financial statements audited for tax purposes



In connection with the June 30, 2010 Presidential Decree, rules were published in the Official Gazette on December 3 and 17 2010 for taxpayers electing not to have their financial statements audited for tax purposes.

Taxpayers opting not to file their audited financial statements must state that fact in their annual tax return and should submit certain information to the Revenue Administration Service (SAT). Following are details relating to the information.

- The information is comprised of 19 sections, of which 12 are required for all tax payers and 7 are circumstantial.
- The taxpayer's legal representative is responsible for filing the information and responding to the SAT's inquiries.
- The information is due by June 2011, and should be delivered electronically through the SAT's Internet portal.
- The software to be used for filing the information will be released at a later date.
- This option may only be taken in the annual tax return, which is filed using the DEM electronic program. The option is subject to the same deadlines for filing the regular income tax return for the period.
- Any taxpayers not taking the option within the deadline established in rule 11.13.5.2 of the Tax Resolutions and failing to file the required information, must include audited financial statements in their tax reports.

Taxpayers electing this option are not entitled to the benefits established by the Federal Tax Code, its Rules and Regulations (RCFF) or other ordinances. Some of the benefits not eligible to taxpayers are as follows:

- Review by the SAT of the auditor's working papers prior to requesting information directly to the tax payer.
- The right to an additional amendment to the tax return relating to the tax report audit.
- Ten-day grace period (i.e., no fines) for reporting understatements of taxes to the SAT.
- Faster processing time of tax refunds (40 to 25 days)
- Refunds of value added taxes using "Declaratorias" (reports issued by a certified public accountant)
- The option to request refund certificates on behalf of third parties.
- The ability to store original documents in microfilmed records or optical discs.
- The option to make monthly tax payments from the 27th to the 28th of the following month.
- The option to make advance requests for seals and straps.
- Quick results/conclusion of in-house reviews performed by the tax authorities.
- Release of the entity's legal representative from joint liability when he/she ceases to be a local resident. (commonly when a company is liquidated)
- Use own equipment to generate invoices and record operations conducted with third parties. (article 51, section III, of the RCFF provides details on parties required to issue a tax report)

Currently, the SAT is reviewing between 8% and 10% of the tax reports. This figure is expected to decrease somewhere between 4% and 5% going forward. The fact that a taxpayer elects not to submit audited financial statements will not necessarily mean that the taxpayer's tax return will be selected for review. However, the SAT might focus its review efforts to those taxpayers.

The following information should be filed by the taxpayers electing not to submit audited financial statements:



Number	Name of the tax exhibit	Comments
1	Statement of financial position	
2	Statement of income	
3	Statement of changes in stockholders' equity	
4	Statement of cash flow	
5	Analysis of expenses and income subaccounts	
6	Analysis of other expenses and other income subaccounts	Not presented comparatively.
7	List of taxes, tax offsets and tax refunds	Information not submitted in other exhibits or programs is concentrated, such as: fees, customs duties, Social Security dues. The section on compensation and refunds must cover all operations carried out.
8	Base for determining tax withheld on professional fees, rents and interest payments	
9	Joint liability for operations with parties resident abroad (sale of shares only)	
10	Monthly determination of tax on cash deposits	
11	Derivative financial instruments contracted with parties resident abroad	
12	Permanent investments in subsidiaries, associates and affiliates resident abroad	
13	Partners or stockholders holding shares or equity units	The list of partners and stockholders must include all of the activity for the year (sales, purchases, etc.).
14	Book/tax, income (loss) reconciliation for purposes of determining income taxes	
15	Operations with related parties	Applies to Mexican and foreigner nationals.
16	Pertaining information balances and transactions with related parties	This is the exhibit for the transfer pricing questionnaire.
17	Computation of taxable income for employees' statutory profit sharing purposes in accordance with Article 16 of the Income Tax Law	
18	Foreign trade operations	
19	Computation of deductions from tax profits relating to land investments as prescribed by section LXXXVI of the second transitory article of the 2002 Income Tax Law (exclusively for the simplified regime)	

For further details, please go to:

http://www.pwc.com/es_MX/mx/publicaciones/archivo/SHCP-secciones-final.pdf

Best regards,



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Point of View is a publication issued by the PricewaterhouseCoopers Mexico audit practice.

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